ŠKODA ANNUAL REPORT 2016

ŠKODA AUTO a.s.

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FOREWORD

Bernhard Maier
Chairman of the Board of the Management

Dear Sir or Madam,

2016 was a very special year for ŠKODA AUTO. We once again achieved record results in various respects, launched pioneering new models and set the guiding principles for the future of our brand and our company.

For the third time in a row, ŠKODA produced more than one million vehicles in a calendar year and delivered them to customers. These record sales were accompanied by the highest turnover in the company's history.

In 2016, we were delighted to celebrate an anniversary that looks back on this success story: ŠKODA has been operating under the umbrella of the Volkswagen Group for 25 years, and has grown from being a traditional regional company to an internationally successful automotive company. This strong network is also a key success factor in our future development.

Another important milestone in 2016 was the presentation of the ŠKODA KODIAQ, which marks the launch of our broad-based SUV campaign. With the ŠKODA KODIAQ, we are entering a new, particularly high-growth segment, and we shall win over new customer groups for our brand.

At the same time, we set the strategic course for ŠKODA's future: With ŠKODA Strategy 2025, we are looking forward to the imminent transformation processes in the automotive industry and changes in society. Key aspects of the future strategy include electro mobility, digitalisation of the company, products and manufacturing, as well as new mobility services and connectivity.

Based on this, ŠKODA will continue on its ambitious growth path by enlarging the ŠKODA model range, opening up new segments and entering new markets. As a result, ŠKODA will attract new customers and increase vehicle sales continuously. In addition, ŠKODA will develop innovative business segments, such as digital mobility services, which will ensure growth on a broader basis.

I am convinced that ŠKODA has defined the right areas of action at the right time. We are building on sound foundations in our upcoming change from a traditional production-focused company into a modern and integrated mobility services provider. With ŠKODA's great tradition and engineering spirit, an increasingly attractive model range, a great team and a convincing strategy, we have all the prerequisites to write the next chapter of our success story.

With kind regards,

Bernhard Maier
ŠKODA AUTO a.s. Chairman of the Board

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., its financial performance, and its 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, thus duly executing its powers entrusted to it under the law.

Under its resolution of 8 March 2016, 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 2016 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 2016. 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 9 March 2017, 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 2016 and assessed it favourably without reservations. The Supervisory Board authorised the Board of Management to submit the annual financial statements for 2016 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

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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 28,300 people.

The ŠKODA brand has been part of the VOLKSWAGEN Group for more than 25 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.

CORPORATE GOVERNANCE

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 Management of VOLKSWAGEN AG,
responsible for Finance and Controlling

Ing. Martin Jahn (*1970)

Member of the Supervisory Board since 1 April 2009
Executive Vice-President of FAW-VW and Brand Director of
VOLKSWAGEN AG

Miloš Kovář (*1964)

Member of the Supervisory Board since 1 May 2015
KOVO ŠKODA AUTO a.s. Trade Union Production Coordinator

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

Florina Louise Piëch (*1987)

Member of the Supervisory Board since 1 January 2015
Designer

Peter Daniell Porsche (*1973)

Member of the Supervisory Board since 1 January 2015
Teacher and Music Therapist

Jaroslav Povšík (*1955)

Member of the Supervisory Board since 16 April 1993
Chairman of the KOVO ŠKODA AUTO a.s. Trade Union Works
Council

Board of Management

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

Werner Eichhorn (*1963)
Member of the Board of Management since 1 September 2012, responsible for Sales and Marketing
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, responsible for Production and Logistics
Previous position:
Member of the Board of Management responsible for Production and Technical Development, Shanghai-Volkswagen Automotive Co., Limited (2005-2010)

Dipl.-Kfm. Klaus-Dieter Schürmann (*1963)
Member of the Board Management since 1 August 2016, with responsibility for Finance and IT
Previous position:
Member of the Board of Management of VOLKSWAGEN NUTZFAHRZEUGE, responsible for Finance and IT (2008-2016)

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

Dipl.-Ing. Christian Strube (*1963)
Member of the Board of Management since 1 December 2015, responsible for Technical Development
Previous position:
Head of Engineering for Exterior, Interior and Safety, VOLKSWAGEN PASSENGER CARS (2012-2015)

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

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

Resigned from the Board of Management:
Dipl.-Kfm. Winfried Krause – member of the Board of Management from 1 April 2010 to 31 July 2016

Appointed to the Board of Management:
Dipl.-Kfm. Klaus-Dieter Schürmann – member of the Board of Management since 1 August 2016

On 24 November 2016, an amendment was made to the Articles of Association that dissolved the Audit Committee.

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 of 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 Czech 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 at www.volkswagenag.com) 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" ("the 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 Human Resources Committee. 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.

BUSINESS OPERATIONS

STRATEGY

The world is transforming before our very eyes. Innovations are mushrooming at an unprecedented rate and the old order is being undermined ever more frequently. The automotive industry is by no means impervious to this trend. In fact, the means we use for personal transportation are on the cusp of a paradigm shift.

Consequently, the Company has devised the ŠKODA Strategy 2025, introduced in 2016, which should provide the Company with a roadmap to make its way through this formidable landscape. When it reaches the other end, ŠKODA AUTO will find itself transformed from a carmaker into a mobility service provider capable of predicting customers' needs and requirements in the next decade.

The ŠKODA Strategy 2025 reflects tendencies and directions moulded by the global megatrends that are influencing various industrial areas and society. The most striking effects include electrification, digitalisation, connectivity and urbanisation, shaping the future of the automotive industry and how we view personal mobility.

Personal mobility and the individual driving experience will be rooted in automated driving, conventional cars and electric vehicles delivering comprehensive connectivity and meeting all environmental requirements.

Once these conditions are in place, the car will become a perfect mode of mobility available even to groups of people who were previously unable to drive because they were either too young or too old. It will also help the disabled, giving them greater independence and flexibility.

The implementation of advanced technologies will ensure that vehicles comply with the very highest standards of safety and comfort, paving the way for people to find new ways of spending the time it takes to get from one point to another.

The ŠKODA Strategy 2025 responds to these trends and requirements and is gearing the Company up for fresh challenges as it transforms. This transformation is wrapped up in a quest to redefine the vehicle of the future and identify new business models. This is the foundation on which, in the future, the Company will be a carmaker providing customers with a "Simply Clever" product and service portfolio, forming a reassuring ecosystem around them, and sculpting their perception of the ŠKODA brand.

The Company's medium-term objectives are to focus on compliance with CO_2 emission limits, introduce smart safety and connectivity services and solutions, and design innovative infotainment.

ŠKODA AUTO will also be cultivating its "Simply Clever" philosophy. One area in which this approach will be put into effect is in the introduction of new elements that will not only ease our customers' lives, but will also make using and driving the car itself more intuitive, simpler and funnier.

ŠKODA AUTO has successfully achieved exceptional technological and qualitative maturity, unveiling vehicles with a new emotional design intended to resonate with new customer groups and mould the brand perception in new ways. This strategy will be broadened in the coming years as we seek out new potential markets and customer groups.

The new ŠKODA SUPERB, premièred in 2015, marked the start of a clear shift towards higher-quality products and outstanding design. The year 2016 was characterised by the brand new ŠKODA KODIAQ, the first large SUV emblazoned with the ŠKODA badge and the first of our cars to offer all-round connectivity. This vehicle integrates the new design language with connectivity and online services unknown in any previous ŠKODA model as they are state-of-the-art milestones in technology, comfort and roominess. ŠKODA AUTO is also introducing new safety, connectivity and environmental protection standards with this model. The ŠKODA KODIAQ is the first in a range of ŠKODA models that are to be marketed in the next few years. All of the ŠKODA KODIAQ's new connectivity and safety features will gradually be incorporated into other cars in the ŠKODA brand portfolio. In late 2016, the Company overhauled the design of – and the technology available for – the ŠKODA OCTAVIA, which is the brand's beating heart. Our progressive approach is reflected in the new "four-eyed face", cutting-edge online services and driver-assist systems, and new "Simply Clever" features, which will embolden the brand's position and its key model on the world's most demanding markets.

PRODUCT PORTFOLIO

ŠKODA CITIGO

The ŠKODA CITIGO is now sleeker than ever before. This three- or five-door city car comes with optional LED daytime running lights and Climatronic air-conditioning, the latest generation of Blues and Swing radios, and a new mobile phone holder on the dashboard as one of ŠKODA's signature "Simply Clever" solutions. Android and iOS compatible apps can be used for navigation, displaying vehicle information, hands-free calls, encouraging efficient driving and playing music and online radio stations. ŠKODA's city car is available in several efficient petrol engine versions. Alternatively, there is the ŠKODA CITIGO G-TEC, a vehicle powered by compressed natural gas to make it particularly environmentally friendly. Customers have a choice of manual or semi-automatic five-speed transmission.

ŠKODA FABIA and ŠKODA FABIA COMBI

The third-generation ŠKODA FABIA hatchback hit the European market in 2014, followed in January 2015 by the new ŠKODA FABIA COMBI. The car's impressive design is complemented by its roominess and hi-tech skills. In 2016, the sporty ŠKODA FABIA MONTE CARLO was joined by the adventurous ŠKODA FABIA COMBI SCOUTLINE. The attractive and versatile range of ŠKODA FABIA models continues to command the interest of new customers.

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 customer favourites ŠKODA RAPID and ŠKODA RAPID SPACEBACK are the second most distinctive model series in the ŠKODA portfolio (after the ŠKODA OCTAVIA). The ŠKODA RAPID is a truly international brand representative as special versions of this model have been engineered for the markets in China, India and Russia, where it is also made. A distinct variant of the ŠKODA RAPID also reports robust sales in Europe and on other world markets.

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. In 2016, the four-cylinder 1.2 TSI (81 kW) engine was replaced by a new turbocharged three-cylinder 1.0 litre and 85 kW petrol engine, which can be combined with a six-speed manual or seven-speed automatic DSG transmission. The ŠKODA OCTAVIA is extremely versatile thanks to its DCC (dynamic chassis control), adjusting the damper and steering settings according to the mode selected (Comfort, Normal or Sport). The facelifted ŠKODA OCTAVIA was introduced at the end of October 2016, replete with new infotainment and assist systems, a whole new range of mobile online services and other new "Simply Clever" features.

ŠKODA YETI

The ŠKODA YETI, featuring front- or all-wheel drive and one of ŠKODA's most versatile models, figures among the most popular compact SUVs in the world. There are two versions: while the ŠKODA YETI is perfectly at home in the concrete jungle, the intrepid ŠKODA YETI OUTDOOR likes to venture further afield.

ŠKODA KODIAQ

The 4.70 metre long ŠKODA KODIAQ is the Czech carmaker's first big SUV, boasting up to seven seats and the largest luggage compartment in its class. The latest ŠKODA model, hitting the road in early 2017, it embodies all the brand's virtues and lays bare ŠKODA's design language for the SUV segment. The ŠKODA KODIAQ offers exceptional interior space, practical intelligence, a whole raft of new functional and "Simply Clever" details, and innovative technologies seldom seen outside higher-end cars. Excellent connectivity keeps the ŠKODA KODIAQ online at all times. The ŠKODA KODIAQ forms the vanguard of ŠKODA's major SUV offensive.

ŠKODA SUPERB and ŠKODA SUPERB COMBI

The ŠKODA SUPERB has always been a pioneer in its class. The third generation of this model, unveiled in 2015, heralded a new era for the ŠKODA brand. With two body versions and the VOLKSWAGEN Group's advanced technology of MQB (Modularer Querbaukasten), the ŠKODA SUPERB has completely redefined ŠKODA's design language and ascended to a new plane of comfort and technology. The new ŠKODA SUPERB impressively combines space, functionality, connectivity and emotion.

FINANCIAL SITUATION

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

In many respects, 2016 was the most successful financial year in ŠKODA AUTO's history. The Company achieved record sales, revenue, operating cash flow and liquidity. The Company's further improvements in financial performance were built on its expanding sales and successful efficiency-boosting measures.

Company Business Performance

In 2016, 1,126,477 ŠKODA brand vehicles were delivered to customers worldwide, up 6.7% year on year, making this the third year in a row in which it had broken through the million-delivery mark. The Company's sales climbed to 799,938 vehicles. Sales revenue rose by 10.5% year on year to CZK 348.0 billion. In the reporting period, vehicle sales accounted for 84.0% of the Company's total sales revenue (2015: 84.5%). The top-selling models were the ŠKODA OCTAVIA, the ŠKODA FABIA, and the ŠKODA SUPERB, which saw sales rocket. The genuine parts and accessories business constituted 5.6% of total sales revenue (2015: 5.9%). The remaining 10.4% (2015: 9.6%) was made up of receipts from the supply of components to VOLKSWAGEN Group companies and other revenues.

In absolute terms, the cost of sales increased by 10.1% year on year to CZK 295.2 billion. The increase was largely the result of material costs (raw material costs, consumables and goods purchasing). Compared to the previous year, gross profit increased by 12.9% to CZK 52.8 billion.

Distribution costs remained at virtually the same level as in the previous year, amounting to CZK 13.5 billion (+1.7%). In 2016, administrative costs were 7.8% higher year on year at CZK 7.8 billion.

The Company's operating profit for the reporting period amounted to CZK 30.9 billion. Profit before tax came to CZK 30.8 billion. Profit after tax amounted to CZK 25.2 billion. The profit before income tax-to-revenues ratio was 8.9%.

Company Cash Flows

In 2016, cash flow from operating activities climbed by 27.3% year on year to CZK 50.4 billion. There was an 18.0% year on year increase in net liquidity to CZK 70.9 billion as at 31 December 2016.

Company Asset and Capital Structure

As at 31 December 2016, the Company's balance sheet totalled CZK 228.2 billion, a 12.6% increase, equal to CZK 25.6 billion, on the previous year-end balance. The value of non-current assets was down slightly when juxtaposed with the comparative period. The rise on the asset side of the balance sheet can therefore be attributed in particular to an increase in current assets. This development mainly reflected the upbeat trend in net liquidity and the higher value of current financial assets. As at the balance sheet date, current assets stood at CZK 123.3 billion, up 29.9% on the figure reported as at 31 December 2015.

Equity increased during 2016 by CZK 20.1 billion to a total of CZK 137.6 billion, and this drove up the equity and liability side of the balance sheet.

In 2016, capital expenditures (net of development costs) amounted to CZK 14.7 billion, the largest proportion of which was channelled into product investment related to the launch of new models and engines.

The Company spent CZK 10.0 billion on new product research and development in 2016 (2015: CZK 10.3 billion).

The Company acquired 1% share in the company SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED with effect from 29 March 2016.

OTHER INFORMATION

In the past, certain ŠKODA vehicles were fitted with EA 189 diesel engines with 1.2 litre, 1.6 litre and 2.0 litre engines. The competent European authorities raised questions about the status of software that exists which detects when these vehicle are in test conditions. This software found in approximately 1.1 million of the ŠKODA brand's vehicles has no impact on the NO_x emissions from a vehicle in normal driving conditions in the real world and, in ŠKODA AUTO's view, does not constitute a prohibited defeat device. The vehicles in question are technically safe and roadworthy.

ŠKODA AUTO decided to engage in a servicing campaign to modify the vehicles. The objective of the service campaign will be that the affected vehicles comply with the limits for NO_x during test conditions in a manner that leaves no room for any doubt that they comply with the relevant requirements.

Technical measures were developed and prepared for these modifications so that the servicing could begin in 2016. The campaign will continue in 2017. Technical measures have been drawn up for all of the ŠKODA vehicles affected and have been presented to the UK's Vehicle Certification Agency (VCA) as Britain's vehicle type approval authority. Currently, ŠKODA AUTO is in close contact with the British authorities and expect to be able to start the implementation of the technical measure for the remaining customers soon.

The servicing campaign costs were taken into account in the financial statements for 2015 and 2016.

TECHNICAL DEVELOPMENT

In 2016, ŠKODA AUTO invested CZK 10.0 billion in technical development. Revenue from external orders in 2016 came to CZK 1.3 billion. The development of new models was in the hands of 1,648 employees at the Company's headquarters and 38 colleagues abroad.

VISION S

In the spring, the VISION S concept car was unveiled in Geneva. This show car, 4,700 mm long, 1,914 mm wide and 1,698 mm high, garnered a great deal of media attention. One of the vehicle's focal points on the outside was its uniquely shaped 21-inch wheels. It is powered by a combination of combustion and electric drive, known as PHEV (plug-in hybrid electric vehicle). There are three rows of seats to accommodate six people. Mobile phone integration into the car's systems connects all passengers to the outside world via the internet. All passengers have their own screen, which they can use to communicate with each other.

The VISION S show car's message is clear:
ŠKODA has a new SUV design,
ŠKODA is developing electric drive,
ŠKODA is online,
ŠKODA remains family-oriented.

World Première in Berlin

ŠKODA's new model took its global bow before approximately 700 guests in Berlin on 1 September 2016. Four ŠKODA KODIAQs in different colours and trims, in both five- and seven-seater versions, were prepared for the occasion. This was the first opportunity for journalists and selected VIP guests to see for themselves this attractive vehicle, its glowing LED headlights cutting through the darkness for the first time in public as they complemented the spectacular audiovisual show.

The ŠKODA KODIAQ is an important milestone in the emotionalisation of the brand. The unique crafting of its design, the dynamic proportions, the new vertical concept of the quad headlamps, the impressive way light and dark areas are rendered on the side of the vehicle, the crisply shaped rear LED light cluster, the 19-inch colour wheels, the quality materials, the wealth of standard and optional equipment, and the original range of "Simply Clever" solutions – all this and much more is offered by the largest SUV yet to be developed and marketed by ŠKODA.

The ŠKODA KODIAQ SUV's mobile online services are the first to be developed in the brand's history. The vehicle, the driver and passengers are connected with the outside world in real time. The navigation system collates information about the current traffic situation, service stations can be selected according to the current fuel prices they are offering, and information is also available on free parking spots and the weather. Besides this online infotainment, there are new proactive services and remote access to the car via mobile phone or computer. Apps for smartphones and personal computers have also been developed for these features.

The ŠKODA KODIAQ at the Paris Motor Show

In late September, the ŠKODA KODIAQ was introduced to journalists and the general public at the Paris Motor Show. Cars decked out in the Style trim level were primed for this grand occasion. Moon White and Lava Blue were selected as colours fit to channel the brand's message. Other colour versions were also on display, alongside a wide selection of rims. The Speed Yellow Green ŠKODA KODIAQ, prepared purely for the Paris event, was a magnet.

The ŠKODA KODIAQ delivers fresh design, innovation, functionality and connectivity, yet retains ŠKODA's signature focus on the family and roominess. Other features that merit particular attention are the retractable door-edge guards, the 720-litre luggage compartment, the Dynamic Chassis Control (DCC) system, the cameras providing a 360-degree view of the car's surroundings, LED headlights and LED rear light clusters, a wheel size of up to 20 inches, wireless mobile phone charging and the mobile online services detailed above.

Special editions were also done for Paris – the ŠKODA MONTE CARLO, the ŠKODA OCTAVIA RS fitted with an engine delivering a supreme 230 hp, the versatile ŠKODA OCTAVIA SCOUT, and the ŠKODA SUPERB's SPORTLINE and LAURIN & KLEMENT versions.

Function, Emotion, Innovation

ŠKODA cars are leaders when it comes to functionality and innovation. Emotions are also integral to the new design DNA. The cars' successfulness is borne out by the results of independent tests. The ŠKODA OCTAVIA, SUPERB, RAPID, RAPID SPACEBACK and YETI chalked up 12 first places on the highly demanding German market in 2016. We are developing new cars to stand us in good stead in the tough competitive landscape. We have plans to introduce even more exciting exteriors and interiors and to modernise the way the controls are arranged on the dashboard. Innovations and new-generation "Simply Clever" solutions are also in the pipeline. We are digitising our development operations to increase the efficiency of technological developments.

Environment

ŠKODA AUTO traditionally carries out its plans with keen consideration for sustainable development and sensitivity towards nature. Development work has been launched on the gradual electrification of ŠKODA cars with technology for PHEVs (plug-in hybrid electric vehicles) and BEVs (battery electric vehicles). Electrified vehicles will be tailored separately to the European and Chinese markets as each has its own individual needs.

Despite plans to deploy five electric vehicles by 2025, the internal combustion engine will still have a central role to play in the next decade. A new emissions centre is being built to cope with changing emissions measurement legislation. This investment of more than EUR 11 million will make ŠKODA AUTO ready to continue complying with legislative requirements in the coming years.

ŠKODA Motorsport's Magnificent Season

ŠKODA had a highly successful motorsport season, in which ŠKODA FABIA R5s were victorious not only in the colours of the ŠKODA Motorsport factory team, but also yielded over a hundred triumphs for customers who purchased the ŠKODA FABIA R5 for racing. A hundred ŠKODA FABIA R5s have been sold since the spring of 2015!

The factory crew of Jan Kopecký and Pavel Dresler ran out winners of the Czech championship in their ŠKODA FABIA R5. A ŠKODA FABIA R5 crewed by Gaurav Gill and Glenn Macneall won the Asia-Pacific Rally Championship (APRC). The crew of Esapekka Lappi and Janne Ferm were crowned world champions in the WRC2 category. ŠKODA cars headed the field in the APRC and the ŠKODA Motorsport team won the WRC2.

World Champions 2016 in the WRC2

PURCHASING

New Products and Projects

Purchasing's primary role is to optimise costs. In 2016, 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 2016 was no exception. At the Kvasiny plant, we witnessed the start of production and launch of the new ŠKODA KODIAQ, marking ŠKODA's entry into the segment of full-blown SUVs. Purchasing was also behind the smooth début of the car. The introduction of the ŠKODA KODIAQ saw Production Purchasing negotiate more than 3,800 new and unique parts for this model, involving over 500 supplier companies.

An equally important project implemented at the Kvasiny plant in 2016 was the Polaris Project, which has significantly expanded the supply base around the ŠKODA AUTO plant in recent years. The first model to roll off the production line under the joint Polaris Project was the SEAT ATECA, to be followed in 2017 by the ŠKODA YETI's successor. These two models will thus prove how exemplary cooperation is within the VOLKSWAGEN Group.

Production Purchasing was joined in its parts procurement (related to the launch of the ŠKODA KODIAQ) 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 ŠKODA KODIAQ's world première in Berlin, TV spots and central product training, along with a global dealer conference in the first quarter of 2017.

Significant investments made via Non-production Purchasing in Mladá Boleslav include the renovation and expansion of older press lines and the construction of a multistorey car park for staff at Gate 6. In 2016, Purchasing also helped to a new welding shop into service to launch body production for the new SUVs. Other major investments associated with the expansion of production at Kvasiny included the construction of employee parking areas and areas to park finished vehicles that are ready for customers.

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 Group's purchasing centre significantly reduced risks linked to developments on raw materials markets (such as steel and rubber).

Purchasing Volumes

In 2016, ŠKODA AUTO's outlay on production material purchasing totalled CZK 177.9 billion, consistent with a year on year increase of CZK 4.2 billion. Much of this material continues to be sourced in the Czech Republic (48.8%), followed by Germany, which accounts for about a quarter (25.6%) of the production materials purchased. Non-production purchasing aggregated CZK 35.9 billion, equal to a 26.2% increase year on year.

PRODUCTION AND LOGISTICS

Expansion of Production Capacities for Worldwide Growth

ŠKODA AUTO came up with its new ŠKODA Strategy 2025 in 2016. In 2016, production of the new-generation ŠKODA SUPERB gathered pace. With demand outstripping supply, production capacity had to be gradually expanded to meet increased customer demand and encourage their interest in ŠKODA cars. In 2016, the product range incorporated a new model, the ŠKODA KODIAQ, which is entering the various markets in 2017.

ŠKODA Production Strategy Abroad

Foreign plants around the world braced themselves to start implementing new or innovated projects on their production lines in 2016.

ŠKODA continued to consolidate its market position in China, where it celebrated the milestone of producing two million cars since 2006. The ŠKODA SUPERB assembled at the Nanjing plant was given a warm reception. The Changsha plant is poised for the production launch of the new Czech SUV, the ŠKODA KODIAQ, while preparations are also under way at the Ningbo plant for the new-look ŠKODA OCTAVIA and ŠKODA OCTAVIA COMBI SCOUT.

In 2016, the Indian production plant in Aurangabad started making the third-generation ŠKODA SUPERB, while the Pune facility launched the reworked ŠKODA RAPID in August.

The new Era Glonass emergency-call system was prepared for deployment on the Russian market, where it will be a mandatory feature of all newly produced cars from 2017.

In August 2016, VW's Bratislava plant in Slovakia embarked on the second stage of the ŠKODA CITIGO's update, which included the limited edition ŠKODA CITIGO FUN.

Production of New Models in the Czech Republic

ŠKODA AUTO's home plants in the Czech Republic expanded their capacity in 2016. Production was ramped up significantly at the Kvasiny plant in particular to accommodate the assembly of the new ŠKODA KODIAQ, ŠKODA's first seven-seater. Kvasiny is also set to host the launch and production of the ŠKODA YETI's successor in 2017.

In addition to the new start-up programmes and expansion of the Kvasiny plant, another challenge for ŠKODA AUTO's logistics in 2016 was the preparation and construction of fully automated warehouses for Euro containers (small load carriers). There are plans to put them into full-scale service at Kvasiny and subsequently at Mladá Boleslav in 2017.

Preparations were made for the revamped ŠKODA OCTAVIA at the Mladá Boleslav I and II plants (MB I and MB II) in 2016, ready for mass production in early 2017.

Mladá Boleslav – A Parent Facility with Prospects

In 2016, global ŠKODA production numbered some 1,152,308 cars, up 115,338 on 2015. In November, ŠKODA heralded another milestone when worldwide production since 1905 surpassed 19 million vehicles.

The ŠKODA OCTAVIA, a customer favourite made at the MB I plant, saw its average daily output climb to 1,088 units, a 3.3% rise on the previous year. The MB I plant also laid the groundwork for the above-mentioned innovation of the ŠKODA OCTAVIA.

The ŠKODA FABIA is now a fixture on the automotive market, as evidenced by the annual production of 192,876 cars, equating to average daily output of 812 units. The assembly line and welding shop at the MB II plant await minor adjustments as they make ready for the launch of the innovated ŠKODA RAPID SPACEBACK, which shares an assembly line with the ŠKODA FABIA.

Spiralling production capacity inevitably places greater demands on paint shop operations. To cater to these requirements, 17-shift weeks were successfully introduced at the Mladá Boleslav facility's paint shop. During the annual summer shutdown, technical modifications were made to the body spray painting line. It was also at this time that a new paint supply reservoir with a 240-body capacity was set up. This will balance out the different shift regimes between the paint shop and assembly line, thereby contributing to production efficiency. The construction of the new M4 press shop hall was completed and PXL II press line technology was installed in 2016. 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 and extra capacity are guarantees that production targets will be met. The new line will be put into full operation in 2017.

ŠKODA AUTO Plant in Kvasiny

The portfolio of this dynamically evolving plant boasts what are currently the most significant models underpinning ŠKODA AUTO's domination. In November, the Kvasiny plant celebrated the production of its two-millionth vehicle since 1947. 2016 was the year of ŠKODA KODIAQ (the new model derived from the VISION S study), which was scheduled for launch in October 2016. The ŠKODA KODIAQ is made on the same assembly line as the ŠKODA YETI. To cope with the enormous success of the ŠKODA SUPERB, capacity and the production plan were raised to 120% of the original projected capacity, with production also expanded to Assembly Line II. The Kvasiny plant is currently hiring in droves, a situation which saw the headcount increase by 2,920 employees in 2016. Towards the end of 2016, the Kvasiny plant laid the groundwork for an 18-shift week for production in order to make a further expansion to the plant's capacities, satisfy customer demand and reduce waiting times for ŠKODA AUTO's models.

Component Production

In 2016, ŠKODA AUTO made 1,093,606 gearboxes, of which 299,391 were MQ 200 gearboxes, 325,215 were MQ/SQ 100 gearboxes, and 469,000 were DQ 200 gearboxes. By the end of 2016, production of DQ 200 gearboxes at the Vrchlabí plant was running at full capacity of 2,000 units per day.

In 2016, the Company made 529,621 engines.

The components made by ŠKODA AUTO are not channelled solely into internal consumption, but are also intended for other Group brands. In 2016, 210,188 engines and 706,906 gearboxes were produced for other Group brands (equal to 65% of all of the gearboxes made).

In 2016, ŠKODA AUTO reached two significant milestones in component production, celebrating one million DQ 200 gearboxes at the Vrchlabí plant between the start of production in 2012 and the end of February 2016, and then – in September – one million EA 211 engines at the Mladá Boleslav plant, where they have been made since 2012.

More than 6,600 axles are currently produced per day on the assembly lines. Overall, 1.53 million axles were made for the assembly plants in Mladá Boleslav, Kvasiny and India in 2016.

Production of ŠKODA Cars

At the Group's Pune plant in India, 9,608 vehicles were made, a 24.2% year on year decline.

At the Nizhny Novgorod partner plant, 29,270 cars were manufactured during 2016. In Kaluga, output stood at 28,743 vehicles. These figures equate to a 15.0% year on year increase at the two Russian plants.

Chinese partner plants produced an aggregate of 327,950 ŠKODA OCTAVIAs, FABIAs, SUPERBs, RAPIDs, YETIs and KODIAQs in 2016. Compared to the year previous, production of ŠKODA cars in China climbed by 22.3%.

ŠKODA CITIGO

ŠKODA CITIGO production was down by 0.1% in 2016, with VOLKSWAGEN's Bratislava plant making 41,247 units (2015: 41,280).

ŠKODA FABIA

This year, 203,308 ŠKODA FABIAs were made worldwide (2015: 195,349), a 4.1% year on year jump.

ŠKODA RAPID

Compared to the previous year, there was a 14.6% rise in production of the ŠKODA RAPID. In total, 216,773 ŠKODA RAPIDs and ŠKODA RAPID SPACEBACKs were made (2015: 189,187).

ŠKODA OCTAVIA

In 2016, the ŠKODA OCTAVIA once again remained ŠKODA AUTO's most important model. Worldwide production of this model was reported at 445,415 units, tantamount to 4.6% year on year growth (2015: 425,640 units). The ŠKODA OCTAVIA accounted for the lion's share of the total annual production of ŠKODA cars, coming in at 38.7%.

ŠKODA YETI

In 2016, the SKODA YETI experienced a 6.2% year on year increase in production to 95,426 units (2015: 89,893).

ŠKODA KODIAQ

ŠKODA KODIAQ started production in October 2016, turning out 1,259 units in anticipation of the model's sales launch in early 2017.

ŠKODA SUPERB

The ŠKODA SUPERB experienced a substantial surge in demand in its segment. In 2016, the number of ŠKODA SUPERBs built rose by 76.3% to 148,880 (2015: 84,468).

PRODUCTION OF ŠKODA CARS AT ŠKODA AUTO COMPANY

		Vehicles	Change (%)
	2016	**2015***	**2016/2015**
Production of ŠKODA Cars			
FABIA	117,397	107,997	8.7%
FABIA COMBI	75,479	72,614	3.9%
FABIA total	**192,876**	**180,611**	**6.8%**
RAPID	31,715	30,270	4.8%
RAPID SPACEBACK	52,975	49,207	7.7%
RAPID total	**84,690**	**79,477**	**6.6%**
ROOMSTER	–	10,336	–
ROOMSTER PRAKTIK	–	817	–
ROOMSTER total	**–**	**11,153**	**–**
OCTAVIA	90,130	87,176	3.4%
OCTAVIA COMBI	176,093	170,629	3.2%
OCTAVIA total	**266,223**	**257,805**	**3.3%**
YETI	**61,038**	**65,962**	**(7.5%)**
KODIAQ	**1,167**	**–**	**–**
SUPERB	46,775	29,421	59.0%
SUPERB COMBI	58,540	35,750	63.7%
SUPERB total	**105,315**	**65,171**	**61.6%**
Total ŠKODA brand	**711,309**	**660,179**	**7.7%**
Production of SEAT cars			
TOLEDO	18,029	19,728	(8.6%)
ATECA	35,833	–	–
Total SEAT brand	**53,862**	**19,728**	**173.0%**
Total ŠKODA AUTO production	**765,171**	**679,907**	**12.5%**

* Figures adjusted for kits shipped to foreign production plants not run by ŠKODA AUTO (to facilitate comparison with 2016).

PRODUCTION OF ŠKODA CARS WORLDWIDE*

	Vehicles 2016	Vehicles 2015	Change (%) 2016/2015
Production of ŠKODA cars in India			
RAPID	9,608	12,676	(24.2%)
OCTAVIA	2,356	3,100	(24.0%)
YETI	–	124	–
SUPERB	1,825	1,037	76.0%
Total ŠKODA India	**13,789**	**16,937**	**(18.6%)**
Production of ŠKODA cars in Slovakia			
CITIGO	41,247	41,280	(0.1%)
Total ŠKODA Slovakia	**41,247**	**41,280**	**(0.1%)**
Production of ŠKODA cars in Russia			
RAPID	28,743	23,498	22.3%
OCTAVIA	22,356	19,543	14.4%
YETI	6,914	7,417	(6.8%)
Total ŠKODA Russia	**58,013**	**50,458**	**15.0%**
Production of ŠKODA cars in China			
FABIA	10,432	14,738	(29.2%)
RAPID	93,732	73,536	27.5%
OCTAVIA	154,480	145,192	6.4%
YETI	27,474	16,390	67.6%
SUPERB	41,740	18,260	128.6%
KODIAQ	92	–	–
Total ŠKODA China	**327,950**	**268,116**	**22.3%**
Total ŠKODA worldwide**	**1,152,308**	**1,036,970**	**11.1%**
Production of other Group brands in India***			
VW	519	2,787	(81.4%)
AUDI	5,667	11,658	(51.4%)
Total other Group brands	**6,186**	**14,445**	**(57.2%)**
Total ŠKODA worldwide and other Group brands	**1,212,356**	**1,071,143**	**13.2%**

* Including other Group brands
** Including production of ŠKODA cars at ŠKODA AUTO company (as stated on page 22) as well as at foreign plants in the rest of the world.
*** Production at the subsidiary Skoda Auto India Private Ltd.

SALES AND MARKETING

2016 – The Brand's Most Successful Year Ever

In 2016, ŠKODA AUTO celebrated 25 years of cooperation with the VOLKSWAGEN Group. This milestone year saw the ŠKODA brand chalk up more sales than ever before, with a record 1,126,477 ŠKODAs – up 6.7% year on year – delivered to customers across the world. This was the third year in a row in which the Company surpassed a million vehicle deliveries in a single calendar year.

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. In defiance of the unabating complexity of the political and economic situation in Russia, deliveries in Eastern Europe were higher than in the previous year. The European region, taken as a whole, saw deliveries climb by 5.4% year on year.

Central Europe

In Central Europe, the ŠKODA brand has kept to its growth trajectory. The Company enjoyed a 6.8% rise in its market share, with customers taking possession of 183,770 vehicles. In the Czech Republic, the ŠKODA AUTO underpinned its market leadership by delivering 88,016 cars to customers on its way to 3.5% year on year growth. Beyond the Czech Republic, delivery figures were also sound in all other Central European markets. In Poland, a record 56,180 ŠKODAs were delivered, reporting a double-digit 12.3% increase on the previous year in the process. This confirmed ŠKODA as the number-one brand in Poland and ranked the country among the Company's five largest markets for sales. In Slovakia, too, ŠKODA led the field, delivering 18,860 vehicles. Another place where customers took receipt of record numbers of vehicles was Slovenia, with Company deliveries up 10.8% to a record 6,320. ŠKODA AUTO also reported an upbeat 10,894 vehicle deliveries (+8.8%) in Hungary.

Eastern Europe

Despite the gloom clouding the car markets in Russia and Kazakhstan, the ŠKODA brand reported a modest 3.1% year on year upswing in customer deliveries in Eastern Europe, where the tally climbed to 90,446 vehicles. ŠKODA deliveries on the Russian market levelled out after the previous year's developments. Here, customers took possession of 55,386 vehicles, tantamount to a 0.7% rise year on year. Demand in Kazakhstan declined sharply, heavily influenced by trends in Russia and a turbulent monetary policy. Here, deliveries to customers shrank by 68.0% year on year to 753 vehicles. In Ukraine, on the other hand, there was a resurgence on the car market in 2016. This was echoed in the uptick in ŠKODA deliveries, which, at 3,608 vehicle sales, was 57.2% higher than in the previous year.

Positive trends also abounded elsewhere in Eastern Europe in 2016. In Romania, for example, ŠKODA registered double-digit growth, maintaining its position as the country's second-strongest importer by delivering 10,283 vehicles, up 14.4% on the previous year. ŠKODA made good headway in customer deliveries also in the Baltic countries, reporting 10.6% year on year growth to 6,549 vehicles. In Estonia, the ŠKODA brand sold a record 3,042 vehicles as it defended its second-place ranking among makes of cars here.

CUSTOMER DELIVERIES – LARGEST MARKETS

	Vehicles		Change (%)
	2016	2015	2016/2015
Total ŠKODA brand	**1,126,477**	**1,055,501**	**6.7%**
China	317,088	281,707	12.6%
Germany	165,196	158,747	4.1%
Czech Republic	88,016	85,005	3.5%
United Kingdom	80,325	74,879	7.3%
Poland	56,180	50,039	12.3%
Russia	55,386	55,012	0.7%
Turkey	28,893	22,233	30.0%
Spain*	23,241	22,068	5.3%
France	23,013	21,500	7.0%
Austria	20,563	20,503	0.3%
Italy	20,530	16,550	24.0%
Israel	20,402	17,753	14.9%
Belgium	18,925	18,001	5.1%
Slovakia	18,860	18,252	3.3%
Switzerland	18,579	19,012	(2.3%)

* excluding the Canary Islands

Western Europe

Western Europe's automotive market continued its growth trajectory in 2016. ŠKODA also tapped into the spiralling demand by delivering a record 454,001 cars to Western Europe, equal to 5.4% growth on the previous year.

In Germany – the largest European market – ŠKODA wound up with a 4.9% market share. Taking delivery of 165,196 vehicles (+4.1%), Germany reported the best result ever, with ŠKODA remaining the market's bestselling import brand.

In the UK, the ŠKODA brand sold more cars than ever before (80,325) in 2016 and moved forward at a pace (+7.3%) easily outclassing the market's growth as a whole (+2.3%).

The brand also broke its sales records in Ireland (9,510 vehicles; +20.5%), Belgium (18,925 vehicles; +5.1%) and Norway (7,702 vehicles; +4.1%). On the French and Finnish markets, the brand reported not only its highest sales ever, amounting to 23,013 (+7.0%) and 11,074 (+10.5%) vehicles respectively, but also carved out its biggest ever market shares (1.2% and 9.3%).

The Company also performed well on other key Western European markets. ŠKODA celebrated a year of thriving sales in Italy, achieving double-digit growth (+24.1%) by delivering 20,530 vehicles. ŠKODA also did well elsewhere in Southern Europe, clocking up 23,241 customer deliveries in Spain as it gained 5.3% over the year. In Austria, too, ŠKODA AUTO nudged up deliveries to 20,563 vehicles in 2016, and in doing so defended its third-place market position. Other Western European markets also reported sound sales. ŠKODA delivered 16,060 vehicles (+6.4%) in Sweden and 16,350 (+7.5%) in the Netherlands. In Switzerland, the final number of deliveries stood at 18,579. While this was down 2.3% on the previous year, the market share actually stood at its highest ever level (5.9%).

Overseas/Asia

The Overseas/Asia region, and especially the growing market in China, plays a pivotal role in the ŠKODA growth and product offensive. In all, 398,260 ŠKODAs were delivered to customers here, up 9.2% on the previous year.

This productive trend was spearheaded by China, globally ŠKODA's biggest market, where we succeeded in delivering a record 317,088 cars (+12.6%) in 2016. The latest ŠKODA OCTAVIA was most in demand here, and the new ŠKODA SUPERB flagship unveiled towards the end of 2015 has also been a success story.

There was another strong rise in the number of ŠKODA AUTO deliveries made in Turkey, where customers took possession of a record 28,893 vehicles (+30.0%) and the Company gained its largest ever market share here. Israel is another country where ŠKODA celebrated record sales, delivering 20,402 cars (+14.9%).

Other progressive sales results in the Overseas/Asia region in 2016 were reported as far afield as Australia (4,760), Taiwan (4,501) and New Zealand (1,282). In India, the final number of sales stood at 13,022, down 17.7% on the previous year.

CUSTOMER DELIVERIES BY REGION

	Vehicles		Change (%)	Share of passenger car market (%)**	
	2016	**2015**	**2016/2015**	**2016**	**2015**
Central Europe*	183,770	172,115	6.8%	19.0%	20.7%
Eastern Europe	90,446	87,727	3.1%	5.2%	4.6%
Western Europe	454,001	430,865	5.4%	3.3%	3.3%
Overseas/Asia	398,260	364,794	9.2%	0.6%	0.6%
Total ŠKODA brand	**1,126,477**	**1,055,501**	**6.7%**	**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 was purchased by 40,674 customers in 2016, up by 1.3% on the previous year. In the coming year, an updated and revamped version will take its bow.

ŠKODA FABIA

Since hitting the market in the autumn of 2014, the third-generation ŠKODA FABIA has kept ahead of the pack, triumphing over the competition thanks to its high-quality workmanship, roomy interior and luggage compartment, sumptuous range of equipment and excellent handling. An extremely popular model on the markets, in 2016 deliveries rose by 5.2% year on year to 202,303. In Western Europe, sales were up by some 8.2%. In Slovakia, ŠKODA FABIA celebrates the major achievement of becoming the bestselling model in its segment. The emotionally tuned ŠKODA FABIA MONTE CARLO, teeming with features, is another version of this model that has won plaudits.

ŠKODA RAPID

The ŠKODA RAPID and the ŠKODA RAPID SPACEBACK fuse the practicality of ŠKODA cars with a fresh and appealing design. The liftback ŠKODA RAPID was rolled out globally in 2012, followed by the ŠKODA RAPID SPACEBACK a year later. In all, 212,656 ŠKODA RAPIDs and ŠKODA RAPID SPACEBACKs were delivered to customers in 2016, equal to 9.4% year on year growth. The ŠKODA RAPID once again found its richest sales seam in Central Europe, where it sold 13,623 vehicles. The ŠKODA RAPID SPACEBACK's most important market is Western Europe, where 32,069 vehicles – 40.6% of the model's worldwide sales – were delivered. In 2016, the ŠKODA RAPID range of models remained the second bestselling in the portfolio, hot on the heels of the ŠKODA OCTAVIA.

ŠKODA OCTAVIA

The ŠKODA OCTAVIA – celebrating its 20th birthday in 2016 – reaffirmed its status as the ŠKODA product portfolio's international bestseller. In 2016, this model again broke the record for the number of vehicles delivered in a single year when it reported a total of 435,974 deliveries (+0.8%). The third generation of what has long been the top-selling ŠKODA model entered the market in 2013, and in 2017 has been treated to a major product and design overhaul. The ŠKODA OCTAVIA's wide range of designs and outstanding qualities make it especially successful among customers both in Central Europe, where year on year deliveries increased by 10.9%, and in Western Europe (+0.6%). The ŠKODA OCTAVIA also has a decent track record with its sporty incarnation, the ŠKODA OCTAVIA RS, and its more rugged offering, the ŠKODA OCTAVIA SCOUT.

ŠKODA YETI

The ŠKODA YETI is one of the most popular compact SUVs. This universal vehicle, available with front- or all-wheel drive, is also available in two different design versions: the ŠKODA YETI, an elegant, stylish city car, and its adventurous counterpart, the ŠKODA YETI OUTDOOR. In 2016, the first-generation ŠKODA YETI approached the end of its lifecycle. Overall, 95,540 ŠKODA YETIs were delivered to customers, tantamount to a 4.0% year on year decline.

ŠKODA KODIAQ

The world première of the new ŠKODA KODIAQ SUV in September 2016 was hosted by Berlin. Stature, strength and exceptional prowess in an outdoor environment – these are characteristics boasted by both the new SUV and the Kodiak bear, which lent its name to the new model. The ŠKODA KODIAQ is just the start of ŠKODA's worldwide SUV offensive and will resonate with a new group of customers in the rapidly expanding SUV segment. The car is set to hit the markets in 2017.

ŠKODA SUPERB

The third-generation ŠKODA SUPERB, unveiled in 2015, saw the ŠKODA brand enter a new era. This model, available as either a sedan or an estate, offers an impressive interplay of functionality and emotion and reaches new heights in creature comforts, technology and high-end connectivity. In 2016, 138,854 ŠKODA SUPERBs were delivered worldwide, equating to rocketing year on year growth of 73.2% and a personal best for this model. The upscale ŠKODA SUPERB LAURIN & KLEMENT also enjoys a great deal of success.

CUSTOMER DELIVERIES BY MODEL

	Vehicles		Change (%)
	2016	2015	2016/2015
CITIGO	**40,674**	**40,152**	**1.3%**
FABIA	127,325	127,154	0.1%
FABIA COMBI	74,978	65,204	15.0%
FABIA total	**202,303**	**192,358**	**5.2%**
RAPID	133,583	127,095	5.1%
RAPID SPACEBACK	79,073	67,226	17.6%
RAPID total	**212,656**	**194,321**	**9.4%**
ROOMSTER	20	15,459	–
ROOMSTER PRAKTIK	9	1,153	–
ROOMSTER total	**29**	**16,612**	**–**
OCTAVIA	262,863	264,312	(0.5%)
OCTAVIA COMBI	173,111	168,023	3.0%
OCTAVIA total	**435,974**	**432,335**	**0.8%**
YETI	**95,540**	**99,547**	**(4.0%)**
KODIAQ	**447**	**–**	**–**
SUPERB	81,288	47,400	71.5%
SUPERB COMBI	57,566	32,776	75.6%
SUPERB total	**138,854**	**80,176**	**73.2%**
Total ŠKODA brand	**1,126,477**	**1,055,501**	**6.7%**

HUMAN RESOURCES MANAGEMENT

In 2016, ŠKODA AUTO swelled the ranks of its employees, especially in frontline positions, in order to cope with the launch of new models and increased production capacity at the Kvasiny and Mladá Boleslav plants.

Building on ŠKODA Strategy 2025, which establishes the objectives to be pursued and the direction to be taken by the Company as a whole in the coming years, the human resources management strategy was also revised and updated. As in past years, HR sets out to champion ŠKODA's companywide strategy and the goals that have been set in all areas by strengthening ŠKODA's excellent team, which relies on competent innovation-craving employees, leadership and performance both within the team and in the face of new forms of work. Major strategic themes are digitalisation and improved IT savviness among employees. Another aim is to continue reinforcing the perception of the ŠKODA brand as the most attractive employer, able to draw on a global pool of talent. HR operational objectives centre on backing for areas of personnel-related expertise, the recruitment of new highly skilled employees, the qualitative and quantitative planning of staff needs, the efficient development of all staff, and the strengthening of their allegiance to the Company.

Development of the Kvasiny Plant Takes Centre Stage

In recent years, the importance of the Kvasiny plant to the ŠKODA brand has steadily risen. With an eye to the new ŠKODA and SEAT SUVs being made at Kvasiny, and thanks to the backing of the local KOVO ŠKODA AUTO a.s. Trade Union, major investment has been channelled into the plant in tandem with a formidable uptick in the number of employees. In 2016, 2,600 frontline jobs were created at Kvasiny in this respect. New recruits benefit from rigorous training both at training centres and on the job in specific workplaces. The goal is to ensure that the products made are of top quality. The employment growth has been spurred on by interest in the models built at Kvasiny and also reflects the introduction of the 18-shift week from January 2017. This hike in employee numbers has prompted the Company to modernise and expand its social services and provide new parking facilities. The plant's rapid growth is a major challenge for the entire region. From the Company's standpoint, one of the main priorities is the fast development of both transport and social infrastructure in the region, and in the municipalities around the plant in particular.

Labour Market Situation and Support of Technical Training

The Company closely monitors developments on the labour market in the Czech Republic. In 2016, the overall situation was fraught with tension as industrial enterprises found themselves exposed to a dearth of both skilled and unskilled labour. This state of affairs is being exacerbated as the more substantial numbers of older workers retire. The demographic curve indicates that no radical improvement in the amount of labour available can be expected in the coming years. ŠKODA AUTO as long been able to meet its human resource requirements on account of its attractiveness, social facilities, pay conditions and the benefits on offer to employees. To secure the personnel it needs amid the fierce competition, the Company has taken additional measures, including an innovative national recruitment campaign. Recruitment operations have also extended into Slovakia and Poland, while collaboration with state administration bodies has even made it possible to hire new employees in Ukraine. The conditions enjoyed by agency staff at the Company have also been improved.

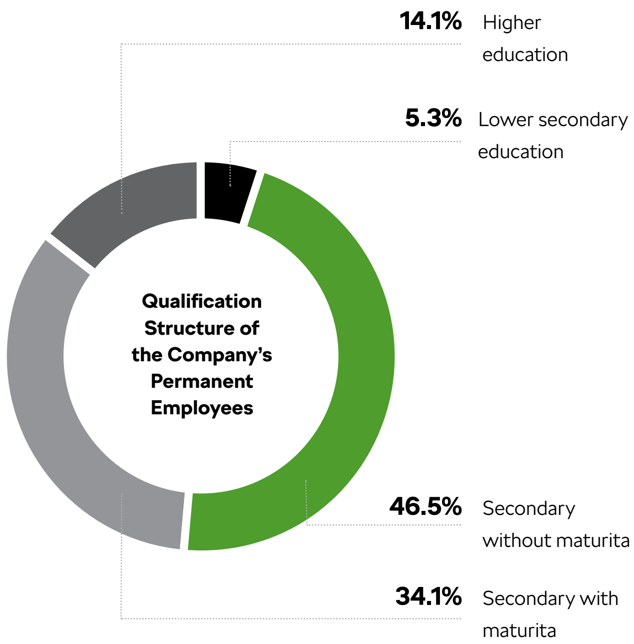
In addition, the Company has reinforced its team with experts on strategically important themes behind the frontline. These positions can be found in technical development, production and sales, with IT coming increasingly to the fore. By way of example, the recruitment of specialists for the ŠKODA AUTO DigiLab in Prague was a major step forward.

Current problems here are compounded by gaps in technical teaching in the Czech Republic. ŠKODA AUTO has championed and popularised technical education in this country for many years. While the Company has initiated many activities in this area, including the POSPOLU ("Together") project, it is vital to act rigorously when putting the measures that have been drawn up into practice. ŠKODA AUTO also works directly with a host of schools at all levels and addresses bilateral technical-education projects with them.

Qualifications and Further Training

In view of the situation prevailing on the labour market, and bearing in mind the projected demographic developments, the Company believes that great added value lies in the occupational training of younger generation and in the further training of existing employees.

The changes being ushered in by new trends in the automotive industry will have major implications for many existing professions, the need for which will dwindle over time, only to be countered by demand for new occupations. The nub of these new specialisations will be dictated primarily by the development, production and servicing of electrified vehicles and by new business models based on digital service provision. Advancing digitalisation and automation will trigger a sea change in the way work is done both on the factory floor and in offices. The Company must guide its employees through these changes and prepare them to work in new surroundings. In this context, the emphasis will be on further employee training to a greater extent than in the past. The Company has the advantage of concentrating all educational activities at the ŠKODA Academy, which serves as an umbrella for activities ranging from vocational apprenticeships to adult education, and in doing so delivers significant synergies.



In 2016, the Company maintained a keen interest in the vocational and post-vocational training of workers. More than 6,550 people completed almost 600 post-vocational training courses, enabling them to radically expand their skill sets. ŠKODA AUTO also focuses strongly on new forms of learning, including eLearning, blended learning, and virtual classrooms. The Innovation Academy, providing employees with digitalisation training according to a simple but competitive syllabus, received a very positive response. The first round involved the active participation of some 8,527 employees, whose motivation to study was underpinned in part by the possibility of winning valuable prizes. Many took part in the courses from home, which shows how prepared they are to keep developing themselves professionally. The ŠKODA Academy has plans to hold further rounds of this training activity.

In 2016, another stage in the modernisation of the ŠKODA AUTO Secondary Vocational School of Engineering was launched, mainly encompassing the classrooms where vocational lessons are taught, the robotics laboratory, the lecture hall and sanitary facilities. The ŠKODA AUTO Secondary Vocational School of Engineering trained more than 900 students for their future careers in 2016. Under an agreement with the KOVO ŠKODA AUTO a.s. Trade Union, the “Certified Specialist” project forged ahead. In this project, vocational centre students who achieve an agreed average grade upon completing their studies are guaranteed smooth recruitment at ŠKODA AUTO with an open employment contract.

The Company is also an active player in the higher-education sector. In 2016, the ŠKODA AUTO University (ŠKODA AUTO Vysoká škola o.p.s.) drew up its strategy for the timeframe up to 2025, in which the teaching of technical subjects will continue to be strengthened to reflect the requirements of the automotive industry, and elements of dual study will be introduced. The university has also rolled out an MBA scheme, which will be updated in the period ahead. The university will keep to a path of internationalisation, developing courses where English is the language of instruction, and working with other partners. The university currently teaches 1,105 students from 19 countries.

The Employer Brand – A Key Driver

In 2016, 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 also extremely popular with university graduates. It topped the “Trendence Graduate Barometer Czech Republic” in the Engineering/IT Edition, coming second in the Business Edition. The Company also featured in the Universum rankings in the recent past. Polling among 13,000 students from 65 Czech colleges and universities saw the Company ranked first by engineering 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

		Bodies	Change (%)
	31 December 2016	**31 December 2015**	**2016/2015**
ŠKODA AUTO – permanent employees	**27,462**	**24,567**	**11.8%**
of which:			
– Mladá Boleslav plant	21,240	20,414	4.0%
– Vrchlabí plant	831	779	6.7%
– Kvasiny plant	5,391	3,374	59.8%
ŠKODA AUTO – apprentices	911	885	2.9%
ŠKODA AUTO total*	**28,373**	**25,452**	**11.5%**

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

SUSTAINABILITY

The Company preaches a policy of harmonising economic and social development plans with ecosystem capacities, while preserving natural resources and biodiversity for current and future generations. Company sustainability rests on social, economic and environmental pillars. These pillars include the Corporate Social Responsibility (CSR) strategy, the GreenFuture environmental strategy, and principles of ethical and transparent conduct.

The Company's top management is kept informed of progress in the Company's sustainability management.

Environmental Protection

Steadfast environmental protection is one of the central pillars of sustainable development and is deployed in all ŠKODA AUTO activities. Environmental responsibility influences the way ŠKODA AUTO conducts itself in the development of cars, production, sales and recycling. As in previous years, key parameters that have an environmental impact are systematically monitored and evaluated. Action is constantly being taken to make improvements 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, a new lighting system was installed in the hall of press shop M12A, comprising 300 LED lights that respond to daylight intensity, with the possibility of controlling multiple sections of the hall separately. This will make annual savings of approximately 1,200 MWh. LED lighting also features in the newly built hall of press shop M4, and as such is turning into an integral part of plans for the renovation and construction of new halls.

The replacement of the burner chambers on top-coat lines 1 a 2 in paint shop M11B will reduce emissions. The original thermal after-burning of volatile organic compounds (VOC) in a natural gas stream had been in operation for 20 years. We expect the higher-efficiency after-burning to usher in an absolute reduction in VOC emissions by approximately 17 t/year, equating to 30 g less per vehicle produced.

New special three-stage filtration will extend the lifetime of oil charges in hardening machines and machine tools. The mobile equipment is able to filter up to 60 m^3 of process oils annually. Filtered oils are not disposed of, but are reused. This cuts down on waste and saves the equivalent of oil for 10,000 vehicles every year.

Air Protection

As the main pollutants released into the atmosphere when cars are made are VOCs, reducing these emissions is a top air protection priority at the Company.

In 2016, the Company carried out the further optimisation of measures to reduce VOC emissions from car body painting. These measures kept VOC emission growth to 6.5%, despite a rise in vehicle production by 11%.

In addition, the quantity of VOCs emitted per m^2 of painted area fell to less than 38% of the 45 g/m^2 statutory limit. What is more, 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 2016, reused (recycled) water accounted for more than 40% of overall consumption.

Waste Management

In waste management, a prevention policy is in place to respect the waste hierarchy as much as possible.

In 2016, the outcome of tendering procedure fundamentally influenced waste management at the Mladá Boleslav plant. Waste recovery was one of the central requirements imposed on partner companies and prompted a drastic reduction in for-disposal waste generated from production processes to 6.7 kg per vehicle, down from 15.1 kg per vehicle in 2015. In 2017, we expect to see this trend continue in the wake of waste management tendering procedure at the Vrchlabí and Kvasiny branches.

Energy

When we refer to energy at our production plants, we mean electricity, which accounts for about 50% of consumption, plus compressed air, heat supplied in hot water and natural gas.

Specific energy consumption per car produced was 1.58 MWh in 2016, an improvement on 2015 thanks to the more efficient utilisation of production capacities and the deployment of energy-saving measures.

Corporate Social Responsibility

ŠKODA AUTO, one of the oldest carmakers 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 in the relations it has formed in the milieu in which it does business.

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 training and education, assistance for children and disabled mobility) and two regional priorities (employee welfare and cooperation with the regions). 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, which also keeps an eye on the finances. Project teams coordinate activities on the ground. Trade union organisations active at ŠKODA AUTO 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 2016, 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 19 projects. Another unique educational initiative in this field is the "ŠKODA hrou" ("Playful ŠKODA") educational website "skodahrou.cz", which encourages children to behave correctly on the road. Since 2015, "Little Driver app", a smart-device app designed as an interactive game to teach children the basics of safe driving, has been downloadable. 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 2016, 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 2016, the prize was awarded to the town of Uherský Brod for its traffic lighting project and for the second stage of its transport terminal. ŠKODA AUTO also runs its own unique "Road Safety Research" initiative, 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 Training and Education

ŠKODA AUTO supports a practical training education system for technical training. The Company 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 Company channels into the creativity of children at nursery and primary schools under the "Young Designers" project. In 2016, 10 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. The Company has 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 2016, the Company continued its partnership with the iQLANDIA science centre in Liberec, which engages with young people in fun ways as it popularises research, engineering and natural sciences among this demographic. The Company continues to have a voice in nationwide debates and projects on the concept of the education system in the Czech Republic.

Caring for Children

Children are the future. ŠKODA AUTO backs up its agreement with this statement primarily by engaging in assistance for less fortunate children. The Company is a long-standing partner of Clown Doctor (Zdravotní klaun), an organisation which arranges for professionally trained clowns to visit seriously ill children at 64 Czech hospitals and, more recently, seniors at seven retirement homes. In doing so, it helps to alleviate stress and loneliness with "fun therapy". In this way, ŠKODA AUTO sponsored 3,700 clown shows that reached out to 70,000 children in 2016. "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. The Education Fund, set up to provide education-related financial assistance, is a follow-up to this project and has supported as many as 60 children. In 2016, ŠKODA AUTO again sponsored the unique charity sports runs by the Tereza Maxová Foundation's "Teribear" mascot. "Teribear" moved Prague (and, later, Mladá Boleslav) increased funds for disadvantaged children with every passing kilometre. The Mladá Boleslav run, for Nymburk 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. Under this scheme, ŠKODA AUTO employed two young people at the Mladá Boleslav plant in 2016. Funding was granted to 14 projects in a grant scheme dedicated to children. ŠKODA AUTO, as the main sponsor of the Czech Olympic team, took centre stage at the RIO Park erected in Lipno. In response to an invitation from ŠKODA AUTO, visitors here donated CZK 50,000 to the Dolní Lánov Children's Home. The Company also sponsored "Na kole dětem" ("On your Bike for Children"), a project helping children who have been treated for cancer to recover and convalesce on breaks away from home.

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. The CZEPA organisation benefits from two ŠKODA AUTO sponsorship vehicles, which are made available to disabled drivers via a unique rental scheme. In 2016, 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 forged 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 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, the Company supports the full gamut of social, cultural and humanitarian projects. At the beginning of the year, a clothes collection was held for charities in the regions in which ŠKODA AUTO's production plants operate. This campaign resulted in more than three tonnes of clothing for children's homes, the homeless and socially deprived families. Employees were given the opportunity to become actively involved in Company-endorsed employee collections, thereby supporting one of six non-profit organisations of their own choice. The overall sum donated by employees in 2016 was more than CZK 2 million, an amount which the Company pledged to match. The "This is My Home" grant scheme awarded funding to 27 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 2016. 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 55 partners, mainly local government authorities and non-profit organisations. In that time, over 640,000 trees have been planted. The "hlaslesa.cz" website – enabling users to experience the wonders of nature – was launched in order to support this project and encourage people to take an interest in discovering nature. ŠKODA AUTO and its employees also supported the clean-up event “Let’s Tidy Up the Czech Republic”, which is intent on ridding the country of its fly-tips. Towards the end of 2016, employees showed their active commitment to volunteerism in the “Engage Days” project, and the Company provided its traditional backing of the international Christmas charity festival, with proceeds donated to various charity projects around the Czech Republic. As per its custom, ŠKODA AUTO stepped out in public with all of these activities at the national NGO Market, organised by the foundation Forum 2000.

Culture and the Arts

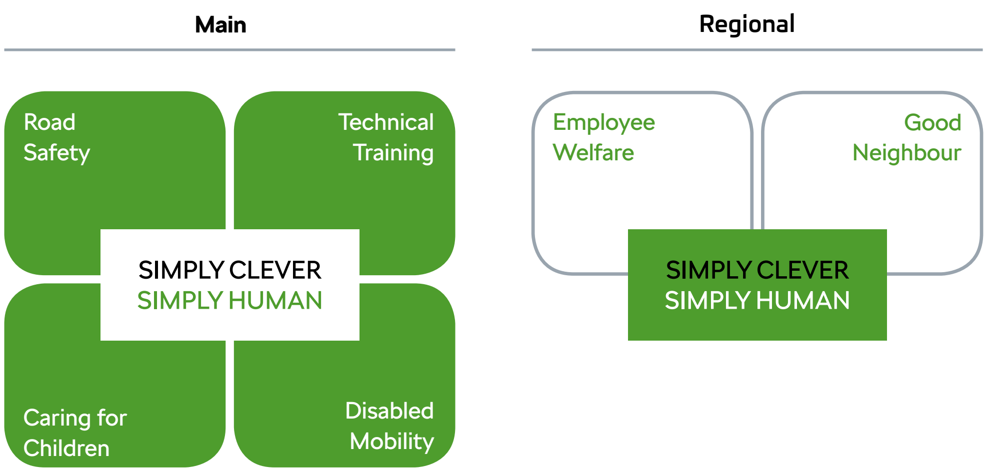
In 2016, ŠKODA AUTO’s traditional partners once again numbered prestigious cultural and social institutions, including the Czech Philharmonic, the National Theatre, the National Museum and the National Technical Museum. Cooperation between the National Theatre and the Czech Philharmonic in particular and ŠKODA AUTO was especially fruitful and has gained considerable momentum. One of the most interesting projects was the Czech Philharmonic’s open-air concert in Prague. The Company also sponsored selected top cultural events held outside Prague, such as 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. In addition, ŠKODA AUTO supported the landmark 20th Forum 2000 Conference, focusing on the responsibility wielded by leaders in public matters. The Company has backed the Arnošt Lustig Prize since 2012 and the Memories of the Nation awards, held 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 Jiří Stránský, the businessman, author, screenwriter, playwright, translator, poet and scout. The Memories of the Nation awards went to four people who, as teenagers in the 1950s, had the courage to stand up to Communist totalitarianism and then faced the consequences – interrogations by the secret police and long years of imprisonment.

Corporate Governance & Compliance

This division’s aim is to engage in corporate governance 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 the ŠKODA AUTO Group’s way of showing that its actions will respect the requirements of legal and ethical rules on competition, finances and taxes, environmental protection and employee welfare, including equal opportunities.

Priorities



RISK MANAGEMENT REPORT

RISK MANAGEMENT SYSTEM

ŠKODA AUTO's global operations in automotive markets pose numerous risks potentially adversely affecting its financial performance and business results. On the flip side, 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 (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 Department. 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 "Operational Risk Management System" and "Yearly 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 eliminate or minimise 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 (BilMoG). System optimisation is intended to achieve continuous monitoring of the main 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, operational 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, EU 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 minimized by 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 carmakers 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 mainly 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 supplier insolvencies. 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 against 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 monitored, planned and managed using standard hedging instruments. The products and strategies employed are discussed and agreed by internal and VW Group committees. These instruments meet 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 managed with similar procedures and strategies.

Other integral risk control components are the active management of the potential impacts on 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 mainstays here are the Company's own funds and the resources of VOLKSWAGEN Group companies. The Company manages export risk by using standard trade finance instruments (e.g. letter of credit, stand-by letter of credit, bank guarantee, etc.).

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 in time, 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 on its production line and in its offices.

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 for example 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.

OUTLOOK

SHORT-TERM AND LONG-TERM OUTLOOK

Overview of Planned Activities and Objectives

Technical Development

Now that the development of the brand new model, the ŠKODA KODIAQ, has been successfully brought to completion, Technical Development will focus on implementing the SUV strategy. Another new SUV will be the successor to the ŠKODA YETI, due to start series production in 2017.

The new-generation ŠKODA YETI will be longer, wider and squatter than the current model in order to achieve finely rendered proportions and a dynamic look. Passengers will enjoy plenty of space both in the front and on the back seats, and the luggage compartment will be able to hold more cargo. Compared to the present model, comfort and safety features will be expanded, and the vehicle will come with new-generation engines.

Innovations of existing models will also abound in 2017. China-specific versions of the ŠKODA KODIAQ and the new-generation ŠKODA YETI will be produced.

In the present year, 2017, Technical Development will aim to extend online services, expanding from its single ŠKODA KODIAQ offering to embrace a further six ŠKODA models.

Earnest development work will also be devoted to completely new generations of vehicles.

In the creation of new products, Technical Development reflects customers' latest demands and keeps tabs on trends evolving on the markets to which ŠKODA vehicles are exported. Significant innovation potential has been identified in the gradual electrification of ŠKODA cars with the deployment of technology for PHEVs (plug-in hybrid electric vehicles) and BEVs (battery electric vehicles).

In 2017, the ŠKODA Motorsport factory team will focus its efforts on competing in WRC2 rallies offering the best promotional opportunities and in the Czech Championship. The ŠKODA FABIA R5 will benefit from further improvements and is now also put up for sale to customers. Besides participating in the above competitions, ŠKODA Motorsport will offer support to customer teams and will continue to develop the customer scheme.

Production and Logistics

The ŠKODA Growth Strategy, which has set ambitious targets for the coming years, is making headway in 2017. In the coming two years, the Company will remould its production capacities at the Kvasiny plant so that it is able to provide greater manufacturing flexibility. The Company's model offensive will be rounded off at this plant when work starts on the production of the ŠKODA YETI's successor. This will be accompanied by the implementation of further measures, especially in the welding shop. ŠKODA AUTO's technical response to a further surge in demand for its models includes the introduction of a turntable feature at the paint shop, with assembly headed for the Mladá Boleslav plant.

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

Environmental Protection

ŠKODA AUTO has been pursuing its GreenFuture strategy, part of the ŠKODA Strategy, for four years. Since 2010, the Company has significantly reduced its environmental footprint in five monitored key parameters. It is now gearing up for the long-term outlook up to 2025. The aim is to support sustainability primarily by making sparing use of resources throughout the Company.

Markets, Sales and Marketing

In 2017, ŠKODA AUTO will focus on successfully driving forward its growth, expanding its market shares and increasing deliveries in key markets.

In 2017, the ŠKODA brand will continue to innovate its product portfolio at full stretch. This year, the ŠKODA KODIAQ, the brand's baby, will gradually be unveiled on the global markets, while the ŠKODA OCTAVIA, ŠKODA RAPID, ŠKODA RAPID SPACEBACK and ŠKODA CITIGO are all lining up for a facelift. The introduction of the new generation ŠKODA YETI will be a highlight in the second half of the year. The plan behind the expanded and modernised portfolio of sports utility vehicles is for ŠKODA to gain a firmer footing in one of the fastest-growing segments. ŠKODA Strategy 2025 heralds a new era for ŠKODA AUTO, in which, together with the VOLKSWAGEN Group, it is set to become the world's leading provider of sustainable mobility.

Employees

In 2017, ŠKODA AUTO will focus on several fundamental HR issues, especially recruitment for the Kvasiny plant following its large-scale expansion in 2016. The Company will also pave the way for the start of production of the ŠKODA YETI's successor at the Kvasiny plant and for the launch of revamped models at Mladá Boleslav. Intensive training will be provided on the digitalisation, automation and electrification of products and on the preparation of staff for future professional advancement. The companywide strategy will see more of an emphasis on innovative culture devoted to performance, diversity and teamwork. The introduction of new forms of work will not be forgotten either. The mobile work system, enabling employees (subject to their manager's blessing) to do their jobs away from their permanent workplace, was launched on 1 January 2017.

The Company plans to develop three production sites in the Czech Republic in 2017. Investments will be channelled into new technology, which will require the training of staff to operate it. The Innovation Academy, enhancing employees' digitalisation skills, will be continued with the opening of new courses. Another goal will remain the recruitment of 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, and in frontline experts. New forms of learning will play an increasingly important role in staff development. Cooperation with the towns and regions where it operates remains important to the Company in 2017. Another prime objective is to maintain ŠKODA AUTO's lead in employer branding.

Finance

ŠKODA AUTO will continue to rejuvenate its model range in 2017, a year in which it will be shouldering the costs of launching the new-generation ŠKODA YETI.

In 2017, 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 consequently respecting planned cost targets, optimising the use of working capital and continuously monitoring investment objectives.

Digitalisation

As digitalisation is a task central to ŠKODA AUTO's future, in 2016 the Company expanded its organisational structure to include a new department, "Corporate Development and Digitisation", as an important element facilitating technological transformation. Corporate digitalisation, connectivity and new mobility solutions are pillars underpinning the digital strategy.

In the future, digitalisation will make the ŠKODA brand's classic area of activity in the car-manufacturing arena all the more outstanding. With car connectivity essential for this, the ŠKODA KODIAQ is the first systematically online ŠKODA offering customers a host of options for connecting their mobile devices and availing themselves of online services. Further advancements in sensor technology, connectivity and artificial intelligence, along with technological know-how, herald new prospects, such as holistic smart-city concepts and automated driving.

We are entering new digital areas of activity, including the provision of digital-mobility services. In the future, connectivity and mobility services will make major contributions to the overall volume of our activities. The first important step in this direction has been the establishment of the ŠKODA AUTO DigiLab in Prague in early 2017. This innovation driver will be a boost to the entire company as it capitalises on the new opportunities thrown up by digital transformation. A workshop of ideas, it has been conceived as a fast reacting start-up developing new business models, solutions and products. Building on the lessons it has learnt, ŠKODA AUTO is keen to gear up for new challenges in digitalisation, connectivity, new mobility and automated driving while continuing to offer customers innovative and proven technology.

FINANCIAL SECTION

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AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF ŠKODA AUTO A.S.

Opinion

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s., with its registered office at tř. Václava Klementa 869, Mladá Boleslav ("the Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in equity and cash flow statement for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the European Commission's interpretation as described in Note 1.1.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements outlined in the Act on Auditors and IESBA Code of Ethics accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

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

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

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

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact.

Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

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Responsibilities of the Board of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.

– Conclude on the appropriateness of the Board of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the separate financial statements, including the notes, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

21 February 2017

PricewaterhouseCoopers Audit, s.r.o.

represented by

Jiří Zouhar
Partner

Pavel Kulhavý
Statutory Auditor, Evidence No. 1538

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Balance sheet as at 31 December 2016 (CZK million)

	Note	31 December 2016	31 December 2015
Assets			
Intangible assets	4	21,483	24,813
Property, plant and equipment	5	64,509	65,642
Investments in subsidiaries	6	49	49
Investments in associates	7	2,352	2,352
Other non-current receivables and financial assets	8	13,575	11,185
Deferred tax asset	14	2,870	3,613
Non-current assets		**104,838**	**107,654**
Inventories	9	16,093	15,115
Trade receivables	8	16,830	11,937
Other current receivables and financial assets	8	17,163	5,629
Cash and cash equivalents	10	73,256	62,280
Current assets		**123,342**	**94,961**
Total assets		**228,180**	**202,615**

	Note	31 December 2016	31 December 2015
Equity and liabilities			
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Retained earnings	12	113,726	103,963
Other reserves	12	5,567	(4,768)
Equity		**137,580**	**117,482**
Financial and other non-current liabilities	13	4,164	5,744
Non-current provisions	15	14,270	13,197
Non-current liabilities		**18,434**	**18,941**
Trade liabilities	13	41,903	38,012
Financial and other current liabilities	13	8,278	10,966
Current income tax liabilities		3,294	2,375
Current provisions	15	18,691	14,839
Current liabilities		**72,166**	**66,192**
Total equity and liabilities		**228,180**	**202,615**

The notes on pages 48 to 100 are an integral part of these financial statements.

Income statement for the year ended 31 December 2016 (CZK million)

	Note	2016	2015
Sales	**16**	**347,987**	**314,897**
Cost of sales	24	295,232	268,184
Gross profit		**52,755**	**46,713**
Distribution expenses	24	13,503	13,272
Administrative expenses	24	7,843	7,273
Other operating income	17	6,498	18,779
Other operating expenses	18	7,015	9,793
Operating profit		**30,892**	**35,154**
Financial income		2,777	1,781
Financial expenses		2,820	2,697
Financial result	**19**	**(43)**	**(916)**
Profit before income tax		**30,849**	**34,238**
Income tax expense	21	5,686	3,422
Profit for the year		**25,163**	**30,816**

Statement of comprehensive income for the year ended 31 December 2016 (CZK million)

	Note	2016	2015
Profit for the year, net of tax		**25,163**	**30,816**
Net fair value gain / (loss) net of tax on financial derivatives designated as hedging instruments	12	9,179	418
Net fair value gain / (loss) net of tax on available-for-sale	12	1,156	-
Other comprehensive income / (loss) for the year, net of tax*		**10,335**	**418**
Total comprehensive income for the year		**35,498**	**31,234**

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

The notes on pages 48 to 100 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016 (CZK million)

	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
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**
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**
Balance as at 1 January 2016	**16,709**	**1,578**	**103,963**	**(4,768)**	**117,482**
Profit for the year	–	–	25,163	–	25,163
Other comprehensive income/(loss)	–	–	–	10,335	10,335
Total comprehensive income for the year	**–**	**–**	**25,163**	**10,335**	**35,498**
Dividends paid	–	–	(15,400)	–	(15,400)
Balance as at 31 December 2016	**16,709**	**1,578**	**113,726**	**5,567**	**137,580**

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

The notes on pages 48 to 100 are an integral part of these financial statements.

Cash flow statement for the year ended 31 December 2016 (CZK million)

	Note	2016	2015
Cash and cash equivalents as at 1 January	**10**	**62,280**	**42,878**
Profit before income tax		30,848	34,238
Depreciation, amortisation and impairment of non-current assets	4, 5	22,528	20,519
Change in provisions		4,942	6,321
Gain on disposal of non-current and financial assets		(9)	(12,181)
Net interest (income) / expense	19	115	418
Dividends income and profit shares	19	(1,100)	(187)
Adjustments for non-cash transactions on derivatives and other adjustments for non-cash transactions		692	(2,223)
Change in inventories		(1,171)	(2,853)
Change in receivables		(4,899)	(2,263)
Change in liabilities		5,092	1,687
Income tax paid from operating activities		(6,448)	(3,713)
Interest paid		(196)	(176)
Interest received		32	35
Cash flows from operating activities		**50,426**	**39,622**
Purchases of tangible and intangible assets		(14,095)	(14,946)
Purchases of available-for-sale financial assets		(7,592)	–
Additions to capitalised development costs	4	(3,475)	(4,110)
Proceeds from sale of non-current and financial assets		11	12,402
Proceeds from dividends		1,100	187
Cash flows from investing activities		**(24,051)**	**(6,467)**
Net cash flows (operating and investing activities)		**26,375**	**33,155**
Dividends paid	11	(15,400)	(13,753)
Cash flows from financing activities		**(15,400)**	**(13,753)**
Net change in cash and cash equivalents		**10,975**	**19,402**
Cash and cash equivalents as at 31 December	**10**	**73,256**	**62,280**

The notes on pages 48 to 100 are an integral part of these financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS 2016

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
– Finance and IT
– 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 29).

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

1. SUMMARY OF 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 2016. 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 2016.

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/en/media/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 22aa Article 1 and 2 of Act No. 563/1991 Coll., on Accounting, (effective as at 31 December 2016). Consolidated financial statements of VOLKSWAGEN AG and the auditor's report thereon will be published in Czech language in the collection of documents in the Commercial register.

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

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

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 2016

New standards, amendments and interpretations that are effective for the financial year beginning on 1 January 2016 adopted by the Company:

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 considered the understandability and the relevance of information provided in the Financial Statements. Based on the results of the analysis the Company eliminated the selected disclosures which do not have the significant impact on the economic decision of the users.

Other new standards, amendments, interpretations and improvements to existing standards that are effective for the financial year beginning on 1 January 2016 have no 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 2016

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, without detailed analysis it is not possible to perform a reliable estimate of all impacts above 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.

IFRS	Standard/ Interpretation	Effective in EU	Description	Effect
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, without detailed analysis it is not possible to perform a reliable estimate of such an impact 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, without detailed analysis it is not possible to perform a reliable estimate of such an impact as at the date of the financial statements.

* Not yet adopted by the European Union as at 31 December 2016 (the specified date relates to effective date as per IASB).

Other new standards, amendments, interpretations and improvements to existing standards that are not effective for the financial year beginning on 1 January 2016 have no material impact on the separate financial statements of the Company.

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	1 – 9 years according to the product life cycle
– Software	3 years
– Tooling rights	5 years
– Other intangible fixed assets	3 – 8 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 2016 and 2015, 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 8).

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. 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 2016 (2015), 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.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Long-term loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets (equity instruments) that otherwise do not have quoted prices in an active market but their fair value can be reliably measured are subsequently carried at fair value. Changes in fair value of an available-for-sale financial assets are recognized in other comprehensive income. The Company recognises dividends from equity instruments in financial income when its right to receive the dividend is established.

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 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.

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 2016 (2015), 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 2016 (as at 31 December 2015) (see note 6):

– ŠKODA AUTO Slovensko s.r.o. (100%);
– Skoda Auto India Private Ltd. (100%).

Associates are all entities in which the Company has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. This 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 2016 (as at 31 December 2015) in the associates (see Note 7):

– 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.

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 Cash and cash equivalents and cash flow statement

The cash and cash equivalents disclosed in the cash flow statement also comprise, in addition to cash and short-term deposits in banks, short--term deposits in Volkswagen Group companies with original maturity of less than three months. Detailed information relating to cash and cash equivalents is disclosed in Note 10.

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

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

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

2.10 Provisions for employee benefits

Provisions for other long-term employee benefits

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

– service jubilee
– 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.

2.11 Other provisions

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

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

2.12 Revenue and expense recognition

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

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.

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.

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.

2.13 Leases

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

2.14 Subsidies

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

2.15 Related parties

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

2.16 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.

2.17 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 4 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 4 and Note 5 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 goodwill 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 goodwill repairs is determined on the basis of a management estimate of existing goodwill repair costs and defined strategy of the goodwill repair trademark policy with regard to specifics of individual countries. The amount of the provision for service actions is determined on the basis of a management estimate, particularly of material, personnel and possible other expenses necessary for eliminating the defects.

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

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

Provision for litigation risks

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

Other provisions

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 15 for additional information.

Useful lives

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

Intangible assets show the highest uncertainty in estimating the useful life. Net book value of intangible assets was CZK 21,483 million as at 31 December 2016 (as at 31 December 2015: CZK 24,813 million). Average useful life of intangible assets was 7 years in 2016 (in 2015: 7 years).

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 that they are readily convertible to known amounts of cash, they are subject to an insignificant risk of changes in value and they are held for the purpose of meeting short-term cash commitments.

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, Sales, Volkswagen Group Treasury, representatives of subsidiaries and management of the Finance and IT 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 2016 (as at 31 December 2015), 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	**2016**	**2015**
Retention of legal ownership title to sold cars	753	615
Bank guarantees	933	391
Letters of credit	1,843	1,492
Documentary collection	94	112
Accepted deposit	434	434
Total	**4,057**	**3,044**

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 2016		
	Neither past due nor impaired financial assets	**Past due but not impaired financial assets**	**Total**
Loans to employees	532	–	532
Loans to and deposits in Volkswagen Group companies*	81,330	–	81,330
Positive fair value of financial derivatives	6,262	–	6,262
Other receivables and financial assets	146	–	146
Trade receivables	15,599	1,231	16,830
Cash	240	–	240
Total	**104,109**	**1,231**	**105,340**

	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	85	–	85
Trade receivables	11,098	839	11,937
Cash	5	–	5
Total	**84,039**	**839**	**84,878**

* For detailed information related to Loans and deposits in Volkswagen Group companies refer to following note 3.1.2.

The amount of guarantee provided by the Company is CZK 75 million as at 31 December 2016 (as at 31 December 2015: 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 2016 (2015) 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 81,330 million as at 31 December 2016 (as at 31 December 2015: CZK 70,589 million), out of which:

- loans with original maturity more than three months included in balance sheet in the line Other current receivables and financial assets (see Note 8.2) in total amount of CZK 8,314 million as at 31 December 2016 (in the line Other non-current receivables and financial assets (see Note 8.1) as at 31 December 2015: CZK 8,314 million),
- deposits with original maturity less than three months included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 40,000 million (as at 31 December 2015: CZK 38,000 million),
- overnight deposits from cash pooling included in balance sheet in the line Cash and cash equivalents (see Note 10) in total amount of CZK 33,016 million (as at 31 December 2015: CZK 24,275 million).

In 2016 (2015), 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 2016), 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 2016			
Loans to employees	532	–	532
Loans to and deposits in Volkswagen Group companies*	81,330	–	81,330
Positive fair value of financial derivatives	6,262	–	6,262
Other receivables and financial assets	146	–	146
Trade receivables	15,223	376	15,599
Cash	240	–	240
Total	**103,733**	**376**	**104,109**

	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**

* For detailed information related to Loans and deposits in Volkswagen Group companies refer to note 3.1.2.

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 2016	**585**	**243**	**403**	**1,231**
Balance as at 31 December 2015	136	522	181	839

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:

	2016	**2015**
Other receivables and financial assets		
Gross balance as at 31 December	167	167
Valuation allowance:		
Balance as at 1 January	(167)	(167)
Additions	–	–
Utilised	–	–
Released	–	–
Balance as at 31 December	**(167)**	**(167)**
Net balance as at 31 December	–	–
Trade receivables		
Gross balance as at 31 December	156	187
Valuation allowance:		
Balance as at 1 January	(187)	(197)
Additions	(43)	(18)
Utilised	53	14
Released	21	14
Balance as at 31 December	**(156)**	**(187)**
Net balance as at 31 December	–	–

During the accounting period 2016 (2015) the Company had valuation allowances on individual financial assets only for which a default risk was identified. During the accounting period 2016 (2015) 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 75 million in 2016 (in 2015: 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 33 million in 2016 (in 2015: CZK 23 million).

3.1.7 Offsetting of financial assets and financial liabilities

Balance as at 31 December 2016	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	6,262	–	6,262	(2,487)	3,775
Liabilities from financial derivatives	3,524	–	3,524	(2,487)	1,036

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

* 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 2016 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 2016 (as at 31 December 2015). The total amount of collateral value of trade receivables was CZK 4,057 million as at 31 December 2016 (as at 31 December 2015: CZK 3,044 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

The Company is 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.

In the GTP, 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's 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 2016 was CZK 600 million (as at 31 December 2015: 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 2016 (as at 31 December 2015).

The Company has not drawn any credit line from the Volkswagen Group as at 31 December 2016.

Contractual maturity analysis (undiscounted amounts in CZK million)

	Within 1 year	1 – 5 years	Total
Balance as at 31 December 2016			
Trade liabilities	(40,740)	–	(40,740)
Derivatives with positive fair value:			
Currency forwards and swaps	(37,830)	(30,718)	(68,548)
Commodity swaps	–	–	–
Derivatives with negative fair value:			
Currency forwards and swaps	(21,774)	(16,230)	(38,004)
Commodity swaps	(58)	(10)	(68)
Total	**(100,402)**	**(46,958)**	**(147,360)**

	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)**

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 for the derivatives with positive fair value in table above would be zero as there are net inflows and net outflows in table above would be 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, Accounting and Sales departments, Treasury Department of the Volkswagen Group, representatives of subsidiaries and management of Finance and IT 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 14 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 bank's 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 cooperation 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) using commodity swaps (for copper, aluminium and lead) and currency forwards. In 2016 the Company voluntarily terminated the application of hedge accounting for those financial derivatives.

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 2016	**Balance as at 31 December 2015**	**Balance as at 31 December 2016**		**Balance as at 31 December 2015**	
	With positive and negative fair value	**With positive and negative fair value**	**Positive**	**Negative**	**Positive**	**Negative**
Currency instruments						
Currency forwards and swaps for trading	8,508	51	283	695	1	–
Currency forwards and swaps – cash flow hedging	98,401	147,629	5,943	2,761	1,681	9,101
Commodity instruments						
Commodity swaps for trading	1,203	53	36	68	3	(13)
Commodity swaps – cash flow hedging	–	1,609	–	–	–	391
Total	**108,112**	**149,342**	**6,262**	**3,524**	**1,685**	**9,479**

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 2016	Volume of hedged cash flows		
	Within 1 year	**1 – 5 years**	**Total**
Currency risk exposure			
Hedging of future cash flows – future receivables	46,475	46,607	93,082
Hedging of future cash flows – future liabilities	(5,319)	–	(5,319)
Total	**41,156**	**46,607**	**87,763**

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**

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, Switzerland and Russia (EUR, GBP, CHF, PLN, RUB) 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 2016 the Company considers as reasonably possible the movements of exchange rates EUR, USD, CHF, GBP and RUB against CZK in the following period of +15% (appreciation of CZK) and -15% (depreciation of CZK). As at 31 December 2015 the Company considered as the reasonably possible 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 the reasonably possible 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%					
2016 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	1,982	(207)	(3)	20	(241)	39
Derivative financial instruments	–	(147)	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	(609)	2,016	3,038	6,158	262	2,271

	CZK depreciation by 15%					
2016 (CZK million)	**EUR**	**USD**	**CHF**	**GBP**	**RUB**	**Other currencies**
Profit before tax						
Non-derivative financial instruments	(1,982)	207	3	(20)	241	(39)
Derivative financial instruments	–	147	–	–	–	–
Other comprehensive income before tax						
Derivative financial instruments	609	(2,016)	(3,038)	(6,158)	(262)	(2,271)

	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)	–

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 2016 (2015: +100/ -25 basis points). Currencies for which interest rates were 0% or negative only the increase of the yield curve was considered in 2016 (2015). 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:

2016 (CZK million)	**Interest rate increased by 100 basis points**	**Interest rate decreased by 25 basis points**
Profit before tax		
Non-derivative financial instruments	804	(21)
Derivative financial instruments	(60)	15
Total	**744**	**(6)**

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)**

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 2016 the Company assumes reasonably possible movements in aluminium, copper and lead prices in the following period of +/-20% (2015: +/-20%).

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:

2016 (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	92	(92)	136	(136)	3	(3)
Other comprehensive income before tax						
Derivative financial instruments	–	–	–	–	–	–

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)	–	–

3.5 Capital management

The Company's capital is controlled on the Volkswagen Group level. It is the objective of the capital management function to maintain continued growth of the Company's value for the shareholders. Management of the Company considers as capital equity presented in these financial statements.

4. INTANGIBLE ASSETS (CZK million)

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance as at 1 January 2016	**30,799**	**3,466**	**14,433**	**48,698**
Additions	218	3,257	848	4,323
Disposals	(5,206)	–	(2,776)	(7,982)
Transfers	2,401	(2,401)	–	–
Balance as at 31 December 2016	**28,212**	**4,322**	**12,505**	**45,039**
Cumulative amortisation and impairment losses				
Balance as at 1 January 2016	**(15,307)**	**–**	**(8,578)**	**(23,885)**
Amortisation	(3,406)	–	(1,314)	(4,720)
Impairment losses	(2,511)	–	(422)	(2,933)
Disposals	5,206	–	2,776	7,982
Balance as at 31 December 2016	**(16,018)**	**–**	**(7,538)**	**(23,556)**
Carrying amount as at 31 December 2016	**12,194**	**4,322**	**4,967**	**21,483**

	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**

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

Amortisation and impairment losses of intangible assets of CZK 7,581 million (2015: CZK 5,564 million) are included in the cost of sales, CZK 8 million (CZK 2015: 8 million) in distribution expenses, and CZK 64 million (2015: CZK 92 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 2016 a decrease in the planned cash inflows relating to four 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 5.4% has been applied in 2016 (2015: 6.5%), 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 four cash-generating units resulted in impairment loss of CZK 2,933 million (2015: CZK 790 million) allocated to intangible assets, which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2016.

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of intangible assets in 2016 or 2015 as they were not material.

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

	2016	**2015**
Research and non-capitalised development costs	6,535	6,207
Amortisation and impairment losses of development costs	5,917	4,148
Research and development costs recognised in the income statement	**12,452**	**10,355**

5. 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 2016	**40,025**	**79,768**	**69,569**	**9,619**	**198,981**
Additions	1,018	5,057	5,319	2,410	13,804
Disposals	(112)	(2,135)	(1,746)	–	(3,993)
Transfers	827	2,276	1,470	(4,573)	–
Balance as at 31 December 2016	**41,758**	**84,966**	**74,612**	**7,456**	**208,792**
Cumulative depreciation and impairment losses					
Balance as at 1 January 2016	**(17,940)**	**(60,895)**	**(54,504)**	**–**	**(133,339)**
Depreciation	(1,486)	(6,260)	(5,194)	–	(12,940)
Impairment losses	–	–	(1,935)	–	(1,935)
Disposals	112	2,074	1,745	–	3,931
Balance as at 31 December 2016	**(19,314)**	**(65,081)**	**(59,888)**	**–**	**(144,283)**
Carrying amount as at 31 December 2016	**22,444**	**19,885**	**14,724**	**7,456**	**64,509**

	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**

* As at 31 December 2016 advances paid amount to CZK 1,285 million (as at 31 December 2015: CZK 2,706 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 2016 a decrease in the planned cash inflows relating to three cash-generating units (production of cars of certain model). 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 assets 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 5.4% has been applied in 2016 (2015: 6.5%), reflecting the specific risks associated with the sector in which the Company operates. For three cash-generating units, the comparison of the carrying amounts with the relevant recoverable amounts resulted in an impairment loss allocated to tangible assets in the amount of CZK 1,935 million (2015: CZK 1,400 million), which has been posted to the income statement (within line Cost of sales) for the year ended 31 December 2016 (31 December 2015).

Capitalisation of borrowing costs

No borrowing costs have been capitalised in the cost of property, plant and equipment in 2016 or in 2015 as they were not material.

6. 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 46 million in 2016 (2015: CZK 34 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 2016 (2015), 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 2016, a discount rate of 6.1% (2015: 7.0%) has been applied.

The carrying amount of financial investment has been compared with its recoverable amount as at 31 December 2016 (31 December 2015). The comparison has not resulted in any significant impairment losses recognized in current and previous year.

7. INVESTMENTS IN ASSOCIATES (CZK million)

The Company's share in the registered capital of the company OOO VOLKSWAGEN Group Rus as at 31 December 2016 was 16.8% (as at 31 December 2015: 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 2016 (as at 31 December 2015: CZK 1,823 million). The recoverable amount of the associate is significantly higher than its carrying amount as at 31 December 2016 (as at 31 December 2015).

The Company's share in the registered capital of the company ŠKO-ENERGO FIN as at 31 December 2016 was 31.25% (as at 31 December 2015: 31.25%). The carrying amount of the Company's share totalled CZK 529 million as at 31 December 2016 (as at 31 December 2015: CZK 529 million).

ŠKO-ENERGO FIN paid dividends to the Company in the amount of CZK 152 million (2015: CZK 152 million).

8. OTHER RECEIVABLES, FINANCIAL ASSETS, TRADE RECEIVABLES AND AVAILABLE-FOR-SALE FINANCIAL ASSETS (CZK million)

8.1 Other non-current receivables and financial assets

Balance as at 31 December 2016	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	–	472	–	–	–	472
Loans to and deposits in Volkswagen Group companies	–	–	–	–	–	–
Positive fair value of financial derivatives	(533)	–	–	3,889	–	3,356
Equity instruments	–	–	9,023	–	–	9,023
Other	–	–	–	–	724	724
Total	**(533)**	**472**	**9,023**	**3,889**	**724**	**13,575**

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

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
Equity instruments	–	–	4	–	–	4
Other	–	–	–	–	1,276	1,276
Total	**(233)**	**8,827**	**4**	**1,311**	**1,276**	**11,185**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2016 (2015), the term component was negative.

A term component of hedging derivatives and fair value of derivatives held for trading are disclosed in the portfolio Financial assets at fair value through profit or loss (see also Note 3.3.4).

Loans to employees and loans and deposits in Volkswagen Group companies are disclosed in the portfolio Loans and receivables.

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.

Investments to equity instruments of other entities are disclosed in the portfolio Available-for-sale financial assets.

After approval by the relevant Chinese authorities with effect from 29 March 2016 the Company acquired 1% share in the company SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED (hereinafter referred to as SAIC), which is related party (as a joint venture of VOLKSWAGEN AG and a third party). The Company plans to hold this investment for the foreseeable future and does not consider its sale. For additional information about the transaction refer to Note 25.

The fair value of the investment amounted to CZK 9,019 million as at 31 December 2016. The fair value of the investment to SAIC was determined as the present value of future free cash flows (FCF) based on discount rate derived from weighted average cost of capital of SAIC (WACC). The fair value of the investment qualifies for Level 3 in accordance with IFRS 13.

As significant unobservable inputs, the assumptions regarding corporate planning (for example operating cash flows), the growth rates used to estimate cash flow after the end of the planning period, and the discount rate are taken into account in the fair value measurement of fair value. In 2016 FCF have been extrapolated with a growth rate of 1%. For discounting free cash flows, the WACC after tax rate of 10.5% has been applied in 2016.

Based on information currently available as at 31 December 2016, a material change in corporate planning was considered unlikely. The cash flow forecasts used are therefore considered to be an appropriate basis for measuring fair value. A variation +/- 0.5 percentage points in the long-term growth rate would increase equity by CZK 262 million or reduce it by CZK 235 million, respectively. A variation +/- 0.5 percentage points in the after tax cost of capital would reduce equity by CZK 403 million or increase it by CZK 449 million, respectively. There are no significant interrelationships between any significant unobservable inputs.

The following table show the change of investments in equity instruments measured at fair value in Level 3 in accordance with IFRS 13:

Balance as at 1 January 2016 (CZK million)	**–**
Additions	7,592
Total change in fair value in the period	1,427
Balance as at 31 December 2016	**9,019**

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

In the column Financial assets designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column Other includes mainly non-current receivable from VOLKSWAGEN AG.

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

8.2 Other current receivables and financial assets

Balance as at 31 December 2016	**Financial assets at fair value through profit or loss****	**Loans and receivables**	**Financial assets designated as hedging instruments**	**Other***	**Total**
Other current receivables and financial assets					
Loans to employees	–	60	–	–	60
Loans to and deposits in Volkswagen Group companies	–	8,314	–	–	8,314
Positive fair value of financial derivatives	(321)	–	3,227	–	2,906
Tax receivables (excl. income tax)	–	–	–	3,531	3,531
Other	–	146	–	2,206	2,352
Total	**(321)**	**8,520**	**3,227**	**5,737**	**17,163**

Balance as at 31 December 2015	**Financial assets at fair value through profit or loss****	**Loans and receivables**	**Financial assets designated as hedging instruments**	**Other***	**Total**
Other current receivables and financial assets					
Loans to employees	–	64	–	–	64
Loans to and deposits in Volkswagen Group companies	–	–	–	–	–
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**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2016 (2015), the term component was negative.

A term component of hedging derivatives and fair value of derivatives held for trading are disclosed in the portfolio Financial assets at fair value through profit or loss (see also Note 3.3.4).

Loans to employees and loans and deposits in Volkswagen Group companies are disclosed in the portfolio Loans and receivables.

The carrying value of current loans to employees approximates their fair value. The fair value of 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 current loans to employees qualifies for Level 3 in accordance with IFRS 13.

The weighted average effective interest rate on loans and deposits in Volkswagen Group companies based on the carrying value as at 31 December 2016 was 0.364% (31 December 2015: 0.364%). The carrying value of loans and deposits in Volkswagen Group companies approximates their fair value. The fair value of 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 loans and deposits in Volkswagen Group companies qualifies for Level 2 in accordance with IFRS 13. As at 31 December 2016 (31 December 2015) were all loans and deposits in Volkswagen Group companies disclosed in Note 8 denominated in CZK.

In the column Financial assets designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column Other includes mainly current receivables from employees, advances paid and other current receivables from VOLKSWAGEN AG.

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

8.3 Trade receivables

	2016	2015
Current trade receivables		
Third parties	2,598	2,371
Subsidiaries	897	598
Other related parties	13,335	8,968
Total	**16,830**	**11,937**

Due to their current nature the carrying amount of current trade receivables after a deduction of allowance for impairment (if any) approximates their fair value. 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 156 million (2015: CZK 187 million) has been deducted from the presented carrying values of trade receivables.

Trade receivables are classified in the portfolio Loans and receivables in accordance with IAS 39.

9. INVENTORIES (CZK million)

Structure of the inventories	Carrying value as at 31 December 2016	Carrying value as at 31 December 2015
Raw materials, consumables and supplies	5,174	4,756
Work in progress	3,726	4,059
Finished products and goods	7,193	6,300
Total	**16,093**	**15,115**

The amount of inventories (including production related personnel costs and overheads capitalised into inventories) recognised as an expense during 2016 was CZK 287,232 million (2015: CZK 260,743 million).

10. CASH AND CASH EQUIVALENTS (CZK million)

	2016	2015
Cash in hand	5	4
Cash pooling	33,016	24,275
Bank accounts	235	1
Cash equivalents	40,000	38,000
Total	**73,256**	**62,280**

The weighted average effective interest rate based on the carrying amount of bank accounts as at 31 December 2016 was 0.0% (as at 31 December 2015: 0.0%).

The line Cash pooling includes overnight deposits from the use of cash pooling (see Note 3.2). The line Cash equivalents includes other current deposits in Volkswagen Group companies with original maturity less than three months. These deposits including cash pooling deposits are included in 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 2016 was 0.0% (31 December 2015: 0.0%). The carrying amount of cash equivalents including cash pooling approximates their fair value. Out of the total value of cash equivalents including cash pooling was denominated in CZK: CZK 70,923 million (31 December 2015: CZK 62,030 million) and in EUR: CZK 2,093 million (31 December 2015: CZK 245 million).

11. SHARE CAPITAL

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

The sole shareholder of the Company is VOLKSWAGEN FINANCE LUXEMBURG S.A. based in Luxembourg, Grand Duchy of Luxembourg. VOLKSWAGEN FINANCE LUXEMBURG S.A. is directly a 100% subsidiary of VOLKSWAGEN AG.

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

There was no movement in the Company's share capital during the accounting period 2016 (2015).

The Company paid a dividend of CZK 15,400 million in 2016 (2015: CZK 13,753 million). The dividend per share was CZK 9,217 in 2016 (2015: CZK 8,231).

12. OTHER RESERVES AND RETAINED EARNINGS (CZK million)

12.1 Other reserves

	2016	2015
Available-for-sale financial assets revaluation reserve*	1,156	–
Reserves for cash flow hedges*	1,045	(8,134)
Statutory reserve fund	3,366	3,366
Total	**5,567**	**(4,768)**

* Net of deferred tax.

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 available-for-sale assets revaluation reserve:

Balance as at 1 January 2016 (CZK million)	**–**
Total change in fair value in the period	1,427
Deferred tax on change in fair value	(271)
Balance as at 31 December 2016	**1,156**

Movement in reserve for cash flow hedges:

Balance as at 1 January 2016 (CZK million)	**(8,134)**
Total change in fair value in the period	8,953
Deferred tax on change in fair value	(1,701)
Total transfers to net profit in the period – effective hedging	2,373
Total transfers to net profit in the period – ineffective hedging	6
Deferred tax on transfers to profit or loss	(452)
Balance as at 31 December 2016	**1,045**

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)**

The transfer from reserves for cash flow hedges to profit or loss arising from effective hedging is in 2016 presented in the line Other operating expense in amount of CZK 3,644 million (2015: CZK 6,237 million) and in the line Other operating income in amount of CZK 1,271 million (2015: CZK 414 million).

12.2 Retained earnings

From the total amount of retained earnings of CZK 113,726 million (as at 31 December 2015: CZK 103,963 million) profit for the year 2016, net of tax, amounts to CZK 25,163 million (2015: CZK 30,816 million).

In compliance with the relevant regulation of the Business Corporations Act, the profit of the Company for the year 2016 (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 2016 has not been approved.

13. FINANCIAL, OTHER AND TRADE LIABILITIES (CZK million)

13.1 Financial and other non-current liabilities

Balance as at 31 December 2016	Financial liabilities at fair value through profit or loss**	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	(34)	1,450	–	1,416
Other	–	–	2,748	2,748
Total	**(34)**	**1,450**	**2,748**	**4,164**

Balance as at 31 December 2015	Financial liabilities at fair value through profit or loss**	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**

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

Notes:
As the spot component exceeded the fair value as at 31 December 2016, the term component is negative.

13.2 Financial and other current liabilities

Balance as at 31 December 2016	Financial liabilities at fair value through profit or loss**	Financial liabilities designated as hedging instruments	Other*	Total
Negative fair value of financial derivatives	812	1,296	–	2,108
Liabilities to employees	–	–	4,098	4,098
Social security	–	–	498	498
Other	–	–	1,574	1,574
Total	**812**	**1,296**	**6,170**	**8,278**

Balance as at 31 December 2015	Financial liabilities at fair value through profit or loss**	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
Social security	–	–	450	450
Other	–	–	1,454	1,454
Total	**178**	**5,662**	**5,126**	**10,966**

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

A term component of hedging derivatives and fair value of derivatives held for trading are disclosed in the portfolio Financial liabilities at fair value through profit or loss (see also Note 3.3.4).

In the column Financial liabilities designated as hedging instruments is disclosed spot component respectively fair value of derivatives designated as hedging instruments. For detailed information on financial derivatives, including information relating to their fair value in accordance with IFRS 13, refer to Note 3.3.4.

In the column and in line Other are mainly disclosed the deferred income from extended warranty and granted licences.

None of the financial liabilities are secured by a lien.

13.3 Trade liabilities

All trade liabilities are current in nature.

Balance as at 31 December 2016	Financial liabilities carried at amortised cost	Other*	Total
Trade liabilities			
Third parties	28,802	933	29,735
Subsidiaries	258	–	258
Other related parties	11,680	230	11,910
Total	**40,740**	**1,163**	**41,903**

Balance as at 31 December 2015	Financial liabilities carried at amortised cost	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**

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

Liabilities to a factoring company within the Volkswagen Group in amount of CZK 2,346 million as at 31 December 2016 (as at 31 December 2015: CZK 2,203 million) are disclosed in line Trade liabilities to other related parties. These liabilities originated in the ordinary course of business and credit terms and maturity of the liabilities have not changed upon transfer to the factoring company.

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

In the column Other mainly advances received are disclosed.

None of the trade liabilities are secured by a lien.

14. DEFERRED TAX LIABILITIES AND ASSETS (CZK million)

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

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

Deferred tax liabilities	Depreciation	Financial derivatives*	Investment incentives	Equity instruments	Total
Balance as at 1 January 2015	**(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)**
Credited / (debited) to the income statement	637	–	–	–	637
Charged to other comprehensive income	–	–	–	(271)	(271)
Balance as at 31 December 2016	**(3,783)**	**–**	**–**	**(271)**	**(4,054)**

Deferred tax assets	Depreciation	Financial derivatives*	Investment incentives	Other**	Total
Balance as at 1 January 2015	**–**	**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**
Credited / (debited) to the income statement	–	–	108	936	1,044
Charged to other comprehensive income	–	(2,153)	–	–	(2,153)
Balance as at 31 December 2016	**–**	**(245)**	**1,443**	**5,726**	**6,924**

Deferred tax liabilities and assets net	Depreciation	Financial derivatives*	Investment incentives	Other	Total
Balance as at 31 December 2015	(4,420)	1,908	1,335	4,790	3,613
Balance as at 31 December 2016	**(3,783)**	**(245)**	**1,443**	**5,455**	**2,870**

* 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.

15. 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 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 1 January 2016	**20,492**	**1,933**	**1,429**	**1,066**	**3,116**	**28,036**
Utilised	(5,158)	(406)	(427)	(156)	(37)	(6,184)
Additions	8,778	459	835	864	685	11,621
Interest expense	(49)	–	–	–	–	(49)
Reversals	(154)	(48)	(6)	(193)	(62)	(463)
Balance as at 31 December 2016	**23,909**	**1,938**	**1,831**	**1,581**	**3,702**	**32,961**

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

Balance as at 31 December 2016	< 1 year	1 – 5 years	> 5 years	Total
Provisions arising from sales	11,132	10,221	2,557	23,909
Provisions for employee benefits	446	479	1,013	1,938
Provisions for litigation risks	1,831	–	–	1,831
Provisions for purchase risks	1,581	–	–	1,581
Other provisions	3,702	–	–	3,702
Total	**18,692**	**10,700**	**3,570**	**32,961**

Balance as at 31 December 2015	< 1 year	1 – 5 years	> 5 years	Total
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**

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 goodwill 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, provisions arising from sales included also provision for service action and other expenditures related to technical measures for cars equipped with EA189 engines. The total balance of the provision related to EA189 issue amounted to CZK 3,476 million in 2016. This provision amounted to CZK 3,200 million as at 31 December 2015. The additions to the provision were reported in cost of sales in the income statement. Expenditures which relate to potential claim settlement will be partly reimbursed to the Company and in connection with the fact stated above, amount receivable from VOLKSWAGEN AG of CZK 1,939 million was reported in other receivables as at 31 December 2016. This receivable amounted to CZK 1,843 million as at 31 December 2015.

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.

16. SALES (CZK million)

	2016	2015
Cars	292,300	265,936
Spare parts and accessories	19,458	18,542
Supplies of components within Volkswagen Group	27,995	23,465
Gains from licence fees	3,385	2,432
Revenues from services	2,650	1,917
Other	2,199	2,605
Total	**347,987**	**314,897**

In 2016 (2015) line Other relates mainly to sales of used cars, scrap and tooling.

17. OTHER OPERATING INCOME (CZK million)

	2016	2015
Foreign exchange gains	1,523	2,877
Gains from derivative transactions	1,271	414
Gains on non-current assets disposal	13	64
Reversal of provisions and accruals	1,434	1,251
Reversal of provision for receivables	21	14
Other operating income from provided services	926	863
Gains from licence fees not relating to the ordinary activities	205	210
Other	1,105	13,086
Total	**6,498**	**18,779**

The line Other in 2015 includes mainly the gain from sale of subsidiary (see Note 25).
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.

18. OTHER OPERATING EXPENSES (CZK million)

	2016	2015
Foreign exchange losses	1,150	2,279
Losses from derivative transactions	3,644	6,238
Receivables write-offs	87	19
Other	2,134	1,257
Total	**7,015**	**9,793**

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

19. FINANCIAL RESULT (CZK million)

	2016	2015
Interest income	81	38
Foreign exchange gains from cash	18	123
Foreign exchange gains from spot operations	70	130
Dividends income	1,100	187
Gains on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	1,508	1,303
Financial income total	**2,777**	**1,781**
Interest expenses	196	456
Foreign exchange losses from cash	25	379
Foreign exchange losses from spot operations	81	132
Loss on settlement and revaluation of financial derivatives - ineffective hedging (includes forward component of currency financial derivatives)	2,519	1,730
Financial expenses total	**2,821**	**2,697**
Net financial result	**(44)**	**(916)**

Income from investments in 2016 includes mainly dividend income of CZK 897 million from the investment in SAIC.

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS (CZK million)

	2016	2015
Financial instruments at fair value through profit or loss	(1,011)	(427)
Loans and receivables	109	(348)
Available-for-sale financial assets	902	1
Financial liabilities carried at amortised cost	113	565
Financial instruments designated as hedging instruments	(2,373)	(5,823)
Net gains / (losses) in profit or loss	**(2,260)**	**(6,032)**
Financial derivatives through other comprehensive income	11,332	519
Available-for-sale financial assets through other comprehensive income	1,427	–
Net gains / (losses) in profit or loss through other comprehensive income	**12,759**	**519**
Total net gains / (losses)	**10,499**	**(5,513)**

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, net interest gains and losses from derivative hedging instruments, interest income from loans and deposits in companies within Volkswagen Group, foreign exchange gains/losses from bank deposits, impairment losses on financial assets and income from dividends of available-for-sale financial assets. For information on net gains and losses from financial instruments through other comprehensive income refer to Note 12.

21. INCOME TAX (CZK million)

	2016	2015
Current tax expense	**7,367**	**4,529**
of which: adjustment in respect of prior years	376	98
Deferred tax	**(1,681)**	**(1,107)**
Income tax total	**5,686**	**3,422**

Statutory income tax rate in the Czech Republic for the 2016 assessment period was 19% (2015: 19%).

As at 31 December 2016 and 31 December 2015, 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)

	2016	2015
Profit before income tax	30,849	34,238
Expected income tax expense	**5,861**	**6,505**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income*	(63)	(2,460)
Expenses not deductible for tax purposes	426	512
Tax allowances and other tax credits**	(351)	(330)
Adjustment to current tax expense relating to prior periods***	376	98
Utilisation of tax credits from investment incentives relating	(420)	(306)
Recognition of deferred tax assets from unused tax credits from investment incentives	(108)	(597)
Other taxation effects	(35)	–
Effective income tax expense	**5,686**	**3,422**
Effective income tax rate	18%	10%

* Permanent differences resulting from tax exempt income included in 2015 especially gain from sale of subsidiary (see Note 25).
** Tax allowances and other tax credits represents mainly tax credits from double deduction of research and development costs.
*** In 2016, the Company reassessed the best possible estimate of the income tax credit use for investment incentives for the year 2015. For more information on changing the use of income tax credit arising from the utilization of investment incentives for 2015 refer to Note 22.

22. SUBSIDIES AND INVESTMENT INCENTIVES (CZK million)

In 2016, 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 62 million (2015: CZK 65 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 2016:

Investment incentives	**Maximum amount of the investment incentives**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives***
Enlargement of production of transmissions - MQ100**	496	–	420
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	705	–
Total	**1,941**	**1,443**	**420**

* The amount represents estimated utilisation of investment incentives as at 31 December 2016, which the Company included in the calculation of corporate income tax estimate for 2016.

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

Investment incentives	**Maximum amount of the investment incentives**	**Recognised deferred tax asset from investment incentives**	**Utilisation of tax credits from investment incentives***
Enlargement of production of transmissions - MQ100**	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	–
Total	**2,247**	**1,335**	**726**

* 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.

** In 2016, the Company reassessed the best possible estimate of use of income tax credit for investments incentives for 2015. Instead of claiming the tax incentives for investment incentive MQ100 in the amount of CZK 420 million, the Company applied unused tax credit for investment incentive EA211 in the amount of CZK 31 million for 2015. It is expected that tax credit for investment incentive MQ100 will be drawn in full in 2016.

23. CONTRACTUAL OBLIGATIONS AND OTHER FUTURE COMMITMENTS (CZK million)

Future commitments as at balance sheet date are as follows:

	Payable until year 2017	Payable 2018 – 2021	31 December 2016
Investment commitments – property, plant and equipment	4,455	973	**5,428**
Investment commitments – intangible assets	7,864	10,041	**17,905**
Operating leasing payments	350	315	**665**

	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**

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.

24. EXPENSES BY NATURE – ADDITIONAL INFORMATION (CZK million)

	2016	2015
Material costs – raw materials and other supplies, goods	**232,257**	**211,126**
Production related services	**12,339**	**12,280**
Personnel costs	**23,190**	**20,815**
Wages	17,701	15,742
Pension benefit costs (defined contribution plans)	3,276	3,031
Social insurance and other personnel costs	2,213	2,042
Depreciation, amortisation and impairment losses	**22,528**	**20,519**
Other services	**26,264**	**23,989**
Total cost of sales, distribution and administrative expenses	**316,578**	**288,729**
Number of employees		
Number of employees*	29,457	27,544

* Average number of employees (including temporary employees).

25. RELATED PARTY TRANSACTIONS

The sole shareholder of the Company was VOLKSWAGEN FINANCE LUXEMBURG S.A. during the whole accounting period ended 31 December 2016 (31 December 2015).

VOLKSWAGEN AG was the ultimate parent company and the ultimate controlling party during the whole accounting period ended 31 December 2016 (31 December 2015).

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)

	2016	2015
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	6,333	7,681
Subsidiaries		
Skoda Auto India Private Ltd.	2,351	2,043
ŠKODA AUTO Slovensko s.r.o.	6,964	6,102
Associates		
OOO VOLKSWAGEN Group Rus	6,817	8,734
Companies controlled by ultimate parent company	218,336	194,535
Other related parties	1,536	1,620
Total	**242,337**	**220,715**

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

The change in ownership structure has no impact on business activities and scope of operation of ŠKODA AUTO Deutschland GmbH and ŠKODA AUTO a.s. ŠKODA AUTO Deutschland GmbH operates on the German market as an importer of ŠKODA cars. Gain on the sale of subsidiary was included in operating income in the item Other operating income (see Note 17). The carrying amount of the investment before the sale was CZK 198 million.

In addition to revenues specified in the table Sales to related parties, in 2016 (2015) the Company also realised revenues from royalties:

	2016	2015
Gains from licence fees		
Ultimate parent company	–	–
Subsidiaries	7	13
Associates	127	91
Other related parties	3,251	2,328
Total	**3,385**	**2,432**

In addition to the revenues specified in the table Sales to related parties, in 2016 (2015) the Company also realised income with related parties relating to interest from intercompany loans and deposits:

	2016	2015
Interest income from loans and deposits		
Ultimate parent company	–	1
Companies controlled by ultimate parent company	31	30
Total	**31**	**31**

Dividends received from subsidiaries are disclosed in Note 6. Dividends received from associates are disclosed in Note 7.

Dividends paid from other equity instruments are disclosed in Note 19.

Purchases from related parties (CZK million)

	2016	2015
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	57,954	46,251
Subsidiaries		
Skoda Auto India Private Ltd.	477	486
ŠKODA AUTO Slovensko s.r.o.	66	58
Associates		
OOO VOLKSWAGEN Group Rus	625	513
Companies controlled by ultimate parent company	26,610	28,124
Other related parties	508	468
Total	**86,240**	**75,900**

The table Purchases from related parties comprises only purchases relating to trade activities.

In addition to the transactions related to the ordinary course of business the Company purchased from its ultimate parent company VOLKSWAGEN AG 1% share in the company SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED pursuant to a contract dated 26 February 2016 which is after approval by the relevant Chinese authorities effective from 29 March 2016. For more information on the acquisition of share refer to Note 8.

The amount of dividends paid to the parent company is disclosed in Note 11.

Receivables from related parties (CZK million)

	31 December 2016	31 December 2015
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	1,683	1,450
Subsidiaries		
Skoda Auto India Private Ltd.	886	588
ŠKODA AUTO Slovensko s.r.o.	11	10
Associates		
OOO VOLKSWAGEN Group Rus	1,937	1,301
Companies controlled by ultimate parent company	8,182	5,387
Other related parties	1,533	830
Total	**14,232**	**9,566**

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

	31 December 2016	31 December 2015
Receivables from royalties		
Ultimate parent company	–	–
Subsidiaries	5	8
Associates	127	100
Other related parties	1,419	548
Total	**1,551**	**656**

In addition to trade receivables and receivables from royalties, the Company as at 31 December 2016 also had loans to and deposits including cash pooling in companies controlled by ultimate parent company in the amount of CZK 81,316 million (31 December 2015: CZK: 70,575 million). Receivables from interest from the loans as at 31 December 2016 amounted to CZK 14 million (31 December 2015: CZK 14 million). The weighted average effective interest rate on the loans is disclosed in Note 8.

The weighted average effective interest rate on current deposits with original maturity less than three months (including cash pooling) is disclosed in Note 10.

In addition to that, the Company also had receivable from its ultimate parent company VOLKSWAGEN AG amounting to CZK 2,457 million as at 31 December 2016 relating particularly to claim refund necessary for settlement of the provision described in Note 15 (as at 31 December 2015: CZK 2,444 million).

Receivables from related parties are considered by the Company to be of the least risk. The products delivered to the related parties are supplied on credit terms or the resulting receivables are transferred to factoring companies. No impairment loss was identified for any of the receivables from related parties. Information on Factoring of receivables with related parties is disclosed in Note 3.1 and 3.1.6.

Information on Investments in subsidiaries is disclosed in Note 6, information on Investments in associates is disclosed in Note 7 and information on Investments in equity instruments issued by related parties in Note 8.

Liabilities to related parties (CZK million)

	31 December 2016	31 December 2015
Parent company		
VOLKSWAGEN FINANCE LUXEMBURG S.A.	–	–
Ultimate parent company		
VOLKSWAGEN AG	2,696	1,779
Subsidiaries		
Skoda Auto India Private Ltd.	224	3
ŠKODA AUTO Slovensko s.r.o.	34	18
Associates		
OOO VOLKSWAGEN Group Rus	199	75
Companies controlled by ultimate parent company	**8,916**	**10,579**
Other related parties	**99**	**128**
Total	**12,168**	**12,582**

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

	31 December 2016	31 December 2015
Contractual obligations and other future commitments		
Ultimate parent company	17,725	11,612
Companies controlled by ultimate parent company	261	1,248
Total	**17,986**	**12,860**

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 same 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)

	2016	2015
Salaries and other short-term employee benefits*	678	658
Pension benefit costs (defined contribution plans)	14	13
Total	**692**	**671**

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

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

CZK 308 million out of the total amount disclosed in the line Salaries and other short-term employee benefits was outstanding as at 31 December 2016 (31 December 2015: CZK 283 million).

26. OTHER INFORMATION (CZK million)

The compensation paid to the Company's auditors for the accounting period was CZK 26 million (2015: CZK 22 million) and covered the following services:

	2016	2015
Audit, other audit related and assurance services	22	20
Tax and related services	1	1
Other advisory services	3	1
Total	**26**	**22**

27. CONTINGENT LIABILITIES

Contingent liabilities represent claims made in connection with the EA189 issue through individual and class action lawsuits against the Company that meet the criteria of a contingent liability, but which value could not be disclosed, because it is not possible to value the possible appropriate transactions to which the actions relate. Currently, these proceedings are in the early stages and prosecutors still have not specified the amount of their claims or the number of group members, to which the filed class action applies, is not known. Chances of actions brought for success may be currently assessed as generally less than 50%.

In Australia, Belgium and the United Kingdom, there are judicial proceedings conducted on the basis of collective actions against the Company and other companies of the Volkswagen Group, in which are applied among other alleged entitlement to a refund and compensation. Since the proceedings are in the initial stage, the amount of applied claims cannot be quantified so far. In India, there are legal proceedings against the Company, other group companies and some of the Indian administrative authorities, in which the applicants request that the defendants imposed various obligations, including the obligation to pay unspecified compensation for damage.

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

Currently, it is impossible to estimate the number of customers who will use the possibility to exercise their alleged claims against the Company by filing a lawsuit in future, nor what will be their views on the success of actions brought. Likewise, it is not possible to estimate how many customers apply their alleged claims against merchants, service partners and importers of ŠKODA brand, what actions they will seek and what will be the extent of their success. It can be expected that dealers, service partners and importers of ŠKODA brand who would not be successful in disputes started by customers, could then exercise their recourse claims against the Company. All potential costs arising from claims and proceedings described above would be fully compensated to the Company by the VOLKSWAGEN AG.

The US traffic safety authority NHTSA (National Highway Traffic Safety Administration), together with the company Takata, announced on 5 May 2016 a further extension of the recall of various models of different manufacturers, wherein certain Takata airbags were installed. In addition, recalls in Canada, Japan and South Korea were ordered by the local authorities.

Also some of the Volkswagen Group's models are affected by the above mentioned recalls, however, not ŠKODA brand models. Currently it is not possible to assess whether further expansion of the recall to other countries could occur, which would affect some ŠKODA models as well.

Due to ongoing technical investigations it is not possible to specify further details as per IAS 37.86.

28. 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 2016.

29. INFORMATION ABOUT VOLKSWAGEN GROUP

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

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

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

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

Mladá Boleslav, 21 February 2017

The Board of Management:

Bernhard Maier

Werner Eichhorn

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

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 2016

The Board of Management 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 2016 – 31 December 2016 (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 turbomachinery (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 2016, 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

On the basis of the contract from 26 February 2016 the Company purchased the 1% share in the SAIC VOLKSWAGEN AUTOMOTIVE COMPANY LIMITED from its ultimate parent company VOLKSWAGEN AG. After the approval of the Chinese state authorities the acquisition came effective from 29 March 2016.

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

ŠKODA AUTO paid a dividend of CZK 15,400 million to VOLKSWAGEN FINANCE LUXEMBURG S.A., as the sole shareholder, on 4 April 2016 based on the Decision of the sole shareholder VOLKSWAGEN FINANCE LUXEMBURG S.A. from 8 March 2016.

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 2016.

In 2016, dividends and share in profit of CZK 46 million were paid out to the Company by the subsidiaries. In 2016, dividends and share in profit of CZK 157 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 company:

SEAT, S.A.

b) genuine parts

ŠKODA AUTO concluded new contracts regarding sales of genuine parts in the Period with the following companies:

Centro Técnico de SEAT, S.A.
VOLKSWAGEN AG

c) others

ŠKODA AUTO entered into new contracts regarding sales of services, licenses, aggregates, bodyworks and other products with the following companies:

AUDI AG
Audi do Brasil Indústria e Comércio de Veículos Ltda.
Audi México S.A. de C.V.
Audi Volkswagen Middle East FZE
Bentley Motors Ltd.
Dr. Ing. H.c.F. Porsche AG
e4t electronics for transportation s.r.o.
Man Truck & Bus AG
OOO Volkswagen Group Rus
Porsche Austria GmbH & Co. OG
Porsche Česká republika s.r.o.
Porsche Romania S.R.L.
Porsche Slovenija d.o.o.
Porsche Ukraine TOV

SEAT, S.A.
ŠKODA AUTO Deutschland GmbH
SKODA AUTO India Pvt. Ltd.
ŠKODA AUTO Slovensko s.r.o.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
Volkswagen (China) Investment Co., Ltd.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen de México, S.A. de C.V.
Volkswagen do Brasil Indústria de Veículos Automotores Ltda.
Volkswagen Group Import Co., Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group Malaysia Sdn. Bhd.
Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sverige AB
Volkswagen India Pvt. Ltd.
Volkswagen Poznan Sp. z o.o.
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen-Audi España, S.A

5.2 Purchase of goods, services and non-current assets

a) production material and goods

ŠKODA AUTO concluded new contracts regarding purchases of production material with the following companies:

AUDI AG
AUDI BRUSSELS S.A.
AUDI HUNGARIA MOTOR Kft.
OOO Volkswagen Group Rus
SEAT, S.A.
Shanghai Volkswagen Powertrain Co., Ltd.
SITECH Sitztechnik GmbH
SITECH Sp. z o.o.
VOLKSWAGEN AG
Volkswagen Argentina S.A.
Volkswagen Automatic Transmission (Dalian) Co., Ltd.
Volkswagen Automatic Transmission (Tianjin) Co., Ltd.
Volkswagen de México, S.A. de C.V.
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Navara, S.A.
Volkswagen Osnabrück GmbH
Volkswagen Poznan Sp. z o.o.
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.
AutoVision GmbH
AutoVision Magyarország Kft.
Carmeq GmbH
Centro Técnico de SEAT, S.A.
e4t electronics for transportation s.r.o.
Nardo Technical Center S.r.l.
OOO Volkswagen Group Rus
Porsche Consulting GmbH
Porsche Engineering Group GmbH
Porsche Macedonia d.o.o.e.l. Skopje
Scania Czech Republic s.r.o.
SEAT, S.A.
Shanghai Volkswagen Powertrain Co., Ltd.
SITECH Sp. z o.o.
SKODA AUTO India Pvt. Ltd.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen (China) Investment Co., Ltd.
Volkswagen Group Japan K.K.
Volkswagen Group of America, Inc.
Volkswagen India Pvt. Ltd.
Volkswagen Konzernlogistik GmbH & Co. OHG
Volkswagen Motor Polska Sp. z o.o.
Volkswagen Navarra, S.A.
Volkswagen of South Africa (Pty) Ltd.
Volkswagen Osnabrück GmbH
Volkswagen Sachsen GmbH
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Software Asset Management GmbH

c) genuine parts

ŠKODA AUTO entered into new contracts regarding purchases of genuine parts with the following companies:

VOLKSWAGEN AG
Volkswagen Original Teile Logistik GmbH & Co. KG
Volkswagen Sachsen GmbH
Volkswagen Zubehör GmbH

d) non-current assets

ŠKODA AUTO entered into new contracts regarding purchases of non-current assets with the following companies:

AUDI HUNGARIA MOTOR Kft.
e4t electronics for transportation s.r.o.
VOLKSWAGEN AG
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, consultancy, production of cars, purchase of capital interests, system and other support) with the following companies:

AUDI AG
Audi Volkswagen Korea Ltd.
Audi Volkswagen Taiwan Co., Ltd.
AutoVision GmbH
AutoVision Magyarország Kft.
Automotive Safety Technologies GmbH
Autostadt GmbH
Bentley Motors Ltd.
Carmeq GmbH
Centro Técnico de SEAT, S.A.
D´Ieteren Lease S.A.
Dr. Ing. h.c. F. Porsche AG
e4t electronics for transportation s.r.o.
Intercar Austria GmbH
Mieschke Hofmann und Partner Gesellschaft für Management- und IT-Beratung mbH
MMI Marketing Management Institut GmbH
OOO Volkswagen Group Rus
Porsche Albania Sh.p.k.
Porsche Austria GmbH & Co. OG
Porsche BH d.o.o.
Porsche Chile SpA
Porsche Colombia S.A.S.
Porsche Consulting GmbH
Porsche Croatia d.o.o.
Porsche Česká republika s.r.o.
Porsche Engineering Group GmbH
Porsche Hungaria Kereskedelmi Kft.
Porsche Informatik GmbH
Porsche Inter Auto CZ spol. s r.o.
Porsche Konstruktionen GmbH & Co. KG
Porsche Macedonia d.o.o.e.l.
Porsche Romania S.R.L.
Porsche Slovenija d.o.o.
Scania Czech Republic s.r.o.
SEAT, S.A.
ŠKODA AUTO Deutschland GmbH
SKODA AUTO India Pvt. Ltd.
ŠKODA AUTO Slovensko s.r.o.
ŠKO-ENERGO s.r.o.
ŠkoFIN s.r.o.
VOLKSWAGEN AG
Volkswagen (China) Investment Co., Ltd.
VOLKSWAGEN FINANCIAL SERVICES AG
Volkswagen Group Australia Pty. Ltd.
Volkswagen Group France S.A.
Volkswagen Group Ireland Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group Japan K.K.
Volkswagen Group of America, Inc.

Volkswagen Group Polska Sp. z o.o.
Volkswagen Group Sales India Pvt. Ltd.
Volkswagen Group Sverige AB
Volkswagen Group United Kingdom Ltd.
Volkswagen India Pvt. Ltd.
Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen-Audi España, S.A.

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., abbreviated INIS s.r.o.
Porsche Engineering Services GmbH
Porsche Siebte Vermögensverwaltung GmbH
Porsche Slovakia, spol. s r.o.
Porsche Werkzeugbau s.r.o.
SEAT Sport S.A.
ŠKO-ENERGO-FIN s.r.o.
Volkswagen Autoeuropa, Lda.
Volkswagen Bank GmbH
Volkswagen-Bildungsinstitut GmbH
Volkswagen Gebrauchtfahrzeughandels und Service GmbH
Volkswagen Group Services S.A.
Volkswagen Immobilien GmbH
Volkswagen Insurance Brokers GmbH
Volkswagen Insurance Company Ltd.
Volkswagen Motorsport GmbH
Volkswagen Procurement Services GmbH
Volkswagen Versicherungsvermittlung GmbH
Volkswagen Vertriebsbetreuungsgesellschaft mbH
Weser-Ems Vertriebsgesellschaft mbH

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, 21 February 2017

The Board of Management:

Bernhard Maier

Werner Eichhorn

Michael Oeljeklaus

Klaus-Dieter Schürmann

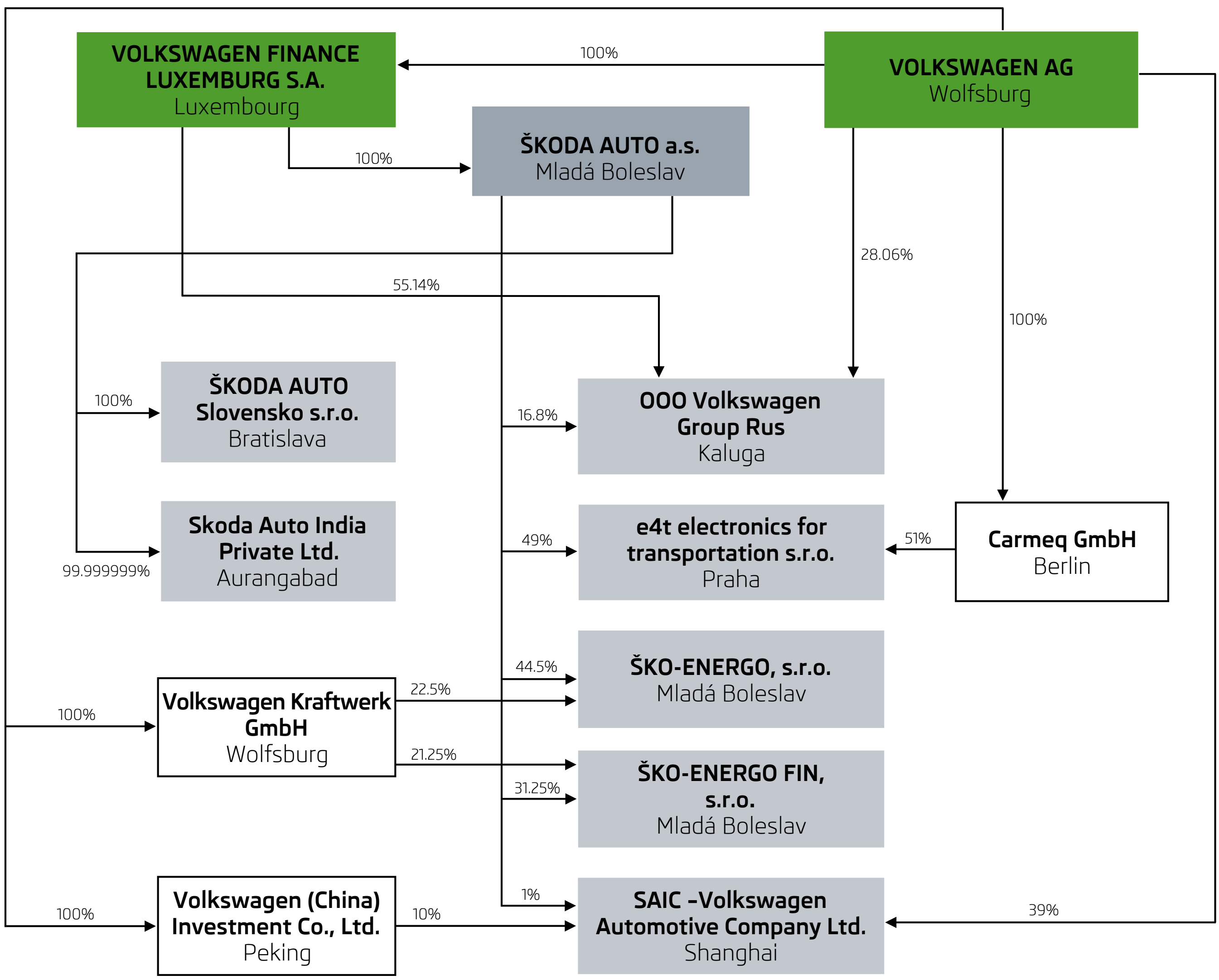
Dieter Seemann

Christian Strube

Bohdan Wojnar

APPENDIX:

Ownership Structure



GLOSSARY OF TERMS AND ABBREVIATIONS

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

BEV – battery electric vehicle

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 on Accounting and Implementing Decree No 500/2002 implementing selected provisions of the Act on Accounting, as amended.

Company – in the Annual Report, the term “the Company” is used as a synonym for ŠKODA AUTO a.s.

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

CUV – crossover utility vehicle - vehicle combining features of a sport utility vehicle (SUV) with features of a passenger vehicle

Deliveries to customers – number of ŠKODA brand vehicles delivered to end customers that were produced by the 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

GRC – Governance, Risk Management and Compliance

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

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

Infotainment – multimedia information system consisting of a 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 – Organisation for Economic Cooperation and Development

PHEV – plug-in hybrid electric vehicle, hybrid electric vehicle that uses batteries that can be recharged by plugging it in to an external source of electric power

Production – number of vehicles produced. The total production figure also includes the production of vehicles for the Volkswagen Group brand SEAT as manufactured by 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 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 POST-BALANCE SHEET EVENTS

Events after the Balance Sheet Date

No material events have occurred between the balance sheet date and the date of preparation of this Annual Report that have had an impact on an assessment of the Company's 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, 21 February 2017

The Board of Management:

Bernhard Maier

Werner Eichhorn

Michael Oeljeklaus

Klaus-Dieter Schürmann

Dieter Seemann

Christian Strube

Bohdan Wojnar

Persons responsible for accounting:

Dana Němečková

Martina Janebová-Ciencialová

ŠKODA AUTO KEY FIGURES AND FINANCIAL RESULTS ACCORDING TO IFRS AT A GLANCE

PRODUCTION, SALES AND TECHNICAL DATA

		201 2	2013	2014	2015	2016
Deliveries to customers	**vehicles**	**939,202**	**920,750**	**1,037,226**	**1,055,501**	**1,127,700**
Sales*	**vehicles**	**691,853**	**682,402**	**773,791**	**778,416**	**799,938**
Sales of ŠKODA cars*		686,948	660,634	757,330	758,742	746,551
Production*	**vehicles**	**656,306**	**639,889**	**735,951**	**736,977**	**765,171**
Production of ŠKODA cars*		651,306	618,118	719,410	717,249	711,309
Employees	persons	24,788	24,548	24,631	25,452	28,373

PROFIT AND LOSS ACCOUNT

		2012	2013	2014	2015	2016
Sales revenue	**CZK million**	**239,101**	**243,624**	**299,318**	**314,897**	**347,987**
Cost of sales	CZK million	203,216	209,538	254,944	268,184	295,232
	% of revenues	85.0	86.0	85.2	85.2	84.8
Gross profit	**CZK million**	**35,885**	**34,086**	**44,374**	**46,713**	**52,755**
	% of revenues	15.0	14.0	14.8	14.8	15.2
Distribution expenses	CZK million	13,724	13,067	13,466	13,272	13,503
Administrative expenses	CZK million	6,155	6,679	6,939	7,273	7,843
Balance of other operating revenues/ costs	CZK million	998	(1,803)	(2,371)	8,986	(517)
Operating profit	**CZK million**	**17,004**	**12,537**	**21,598**	**35,154**	**30,892**
	% of revenues	7.1	5.1	7.2	11.2	8.9
Financial result	CZK million	(1,292)	413	(249)	(916)	(43)
Profit before income tax	**CZK million**	**15,712**	**12,950**	**21,349**	**34,238**	**30,849**
Profit before income tax-to-revenues ratio	%	6.6	5.3	7.1	10.9	8.9
Income tax expense	CZK million	2,453	1,564	2,928	3,422	5,686
Profit for the year	**CZK million**	**13,259**	**11,386**	**18,421**	**30,816**	**25,163**
Profit for the year-to-sales ratio	%	5.5	4.7	6.2	9.8	7.2

* In 2016, the method for reporting of sales and production was altered. Sales and production volumes are reported exclusive of kits shipped to foreign production plants not operated by ŠKODA AUTO a.s.; these kits are reported as other intragroup deliveries.

BALANCE SHEET/FINANCING

		2012	2013	2014	2015	2016
Non-current assets	CZK million	81,586	87,923	105,139	107,654	104,838
Current assets	CZK million	59,656	64,078	71,730	94,961	123,342
Equity	CZK million	88,302	90,316	100,001	117,482	137,580
Non-current and current liabilities	CZK million	52,940	61,685	76,868	85,133	90,600
Assets	**CZK million**	**141,242**	**152,001**	**176,869**	**202,615**	**228,180**
Net liquidity	**CZK million**	**30,872**	**27,871**	**41,452**	**60,077**	**70,910**
Cash flows from operating activities	CZK million	23,819	28,965	45,158	39,622	50,426
Cash flows from investing activities	CZK million	(6,042)	(25,148)	(25,512)	(6,467)	(24,051)
Net cash flows	**CZK million**	**17,777**	**3,817**	**19,646**	**33,155**	**26,375**
Investments	**CZK million**	**20,558**	**19,354**	**19,150**	**15,857**	**14,652**
Investment ratio	%	8.6	7.9	6.4	5.0	4.2
Equity ratio	%	62.5	59.4	56.5	58.0	60.3
Equity-to-fixed assets ratio	%	108.2	102.7	95.1	109.1	131.2

Published by:
© ŠKODA AUTO a.s. 2017
tř. Václava Klementa 869
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Incorporated by entry in the
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The Annual Report 2016 is published in Czech and English. In all matters of interpretation of information, views or opinions, the Czech version takes precedence over the English version.
Both versions are available on the Company's website:
www.skoda-auto.cz
www.skoda-auto.com

Annual Report prepared in-house using firesys.

Consulting and print production
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