

SIMPLY CLEVER



ŠkodaAuto Sustainability Report 2007/2008

The Škoda Auto policy

The legacy of Founders: "Only the best we are capable of is good enough for our customers."

(Laurin & Klement, 1914)

Škoda Auto develops, produces and offers quality and environmental safe cars, original parts and accessories whose properties not only fulfill but even exceed desires of customers. In accordance with the corporate strategy VOLKSWAGEN EXCELLENCE the objective of Škoda Auto is to arouse enthusiasm in customers, so that they remain loyal to the Škoda brand.

Adherence to the following principles by all employees is a guarantee of the top results and successful future of Škoda Auto:

- In designing, manufacturing, sale and providing services Škoda Auto has been guided by desires of its external as well as internal **customers**.
- Besides meeting all **legislation and regulatory** requirements, Škoda Auto has also undertaken to **continuously improve** its products and process so as to enhance its business success while continuing to reduce environmental impacts.
- Škoda Auto creates **mutually beneficial and balanced relations** with its contractual partners as well as the public.
- Škoda Auto is very particular about the prevention of **environmental** pollution and the economical exploitation of natural resources, using environmental friendly materials and technologies. And it requires the same from its contractors.
- **Each employee** of Škoda Auto is responsible for the quality and constant improvement of their work, environmental protection and protection of the company's property and information.
- **The management** of Škoda Auto **supports** its employees in their personal development creating a favourable environment in accordance with the principles of occupational health and safety in order for them to be content and deliver competitive quality.

The management of Škoda Auto has undertaken to create conditions for achieving objectives and fulfilling the above mentioned principles. It expects its employees to be entirely committed to their fulfillment.

D. Wittig
Chairman of the Board
of Directors

M. Jahn
Member of the Board
of Directors
Human Resources

F. Kappler
Member of the Board
of Directors
Sales and Marketing

H. Kintscher
Member of the Board
of Directors
Commercial Affairs

Dr. H. Ludanek
Member of the Board
of Directors
Technical Development

H. Mühl
Member of the Board
of Directors
Production and Logistics

E. Mackoviak
Quality
Management



Škoda Auto has a long-term program to minimize environmental impacts of its activities. Maintaining a balance of economic, environmental and social spheres, which is a prerequisite for sustainable development, is one of our priorities.

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INTRODUCTION

Foreword of the Chairman of the Board of Directors

More than a hundred-year tradition of car production means above all hundred years of precious experience to Škoda Auto. A high quality of Škoda cars is the result. But this traditions entails responsibility towards all subjects inside the company as well as in its surroundings.

We have based this social responsibility on three principal pillars of sustainable development – economic, social and environmental. We strive for each car to bring its owner a maximum use value while being friendly to the environment.

Škoda Auto has extended its operations throughout more than 100 markets. Škoda cars roll off production lines in almost two tens of production and assembly plants all over the world. It is our obligation to invest into education and development of individual regions in which we operate. We seek thus to be a role model for all our business partners and partner organizations.

Please, allow us now to present you with proofs and facts documenting the aforementioned words in the form of this Sustainable Development Report of Škoda Auto.



Reinhard Jung
Chairman of the Board of ŠKODA AUTO a.s.



About the company

History - the company's establishment and development

The route to current success of the biggest Czech car factory started in 1895, when Václav Laurin and Václav Klement started the production of Slavia bicycles. Four years later the Laurin&Klement company started manufacturing motorcycles. First cars called Voiturette A left the factory's gates in 1905 and soon established themselves firmly on developing international automobile markets.

Two years later the Laurin&Klement joint-stock company was founded. In 1925 the Laurin&Klement car manufacturer merged with Škoda Works of Pilsen and after five years the Joint-Stock company for Automotive Industry (ASAP) was founded employing the then revolutionary flow production.

In the fall of 1945 the factory was nationalized. In 1964 the factory occupying a production area of 800,000 m² with 13,000 employees began the production of the popular Š 1000 MB car. In 1987 the company presented its milestone model, Škoda Favorit, which later facilitated the transformation of the Škoda Auto company into the current shape.

In April 1991, a new chapter of the company's history began. Strategic partner, Volkswagen, entered the company. In 1997, the more modern Škoda Auto started the production of another important model – Škoda Octavia.

Presence – description, policy and group

Since the entry of the Volkswagen Group the Škoda Auto company has tripled its production, extended the product portfolio and boosted the Škoda brand image. The company has developed an extensive sales network and it has successfully established itself within advanced international markets. The motor works currently employs more than 30,000 people all over the world and significantly contributes to the development of all regions in which it operates.

In terms of its turnover, it belongs to the biggest economic groups within new EU member countries. Škoda Auto is the most important Czech exporter.

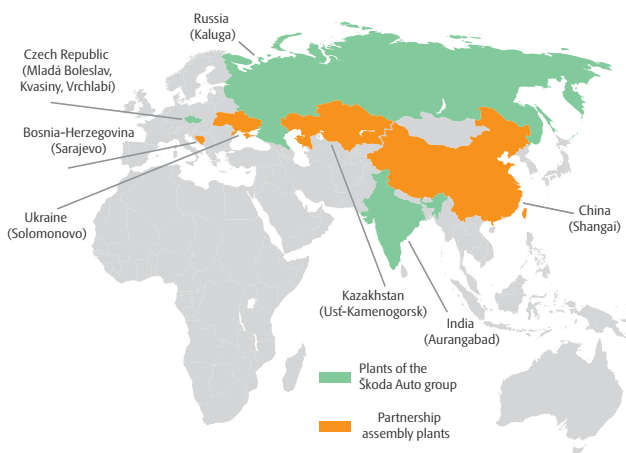
The company pursues a socially responsible approach in the economic sphere (transparent publication of results), social sphere (sheltered workshops, Healthy Company or 50+ projects) as well as the environment (air emissions abatement, implementation of environmentally friendly models, recycling of wastes and car wrecks, abatement of power consumption and reducing the consumption of natural resources in the production process).



The Škoda Auto group belongs to the most important economic groups in the Czech Republic. The group is comprised of the mother company ŠKODA AUTO, a.s., its fully consolidated subsidiaries ŠkodaAuto Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Skoda Auto Polska S.A. and Skoda Auto India Private Ltd. and the unconsolidated OOO VOLKSWAGEN RUS company. Volkswagen International Finance N.V. with a registered office in Amsterdam, the Netherlands, is the sole shareholder of Škoda Auto.

- **ŠKODA AUTO a.s.** registered office: Mladá Boleslav, Česká republika
- **ŠkodaAuto Deutschland GmbH** registered office: Weiterstadt, Germany, Škoda Auto share: 100%
- **SKODA AUTO Slovensko s.r.o.** registered office: Bratislava, Slovakia, Škoda Auto share: 100%
- **Skoda Auto Polska S.A.** registered office: Poznan, Poland, Škoda Auto share: 51%
- **Skoda Auto India Private Ltd.** registered office: Aurangabad, India, Škoda Auto share: 100%
- **OOO VOLKSWAGEN RUS** registered office: Kaluga, Russia, Škoda Auto share: 30%

Production and assembly plants of the Škoda brand



Future – strategy and goals

Maintaining a long-term balance between economic, social and environmental spheres is a prerequisite for sustainable development.

Ensuring a long-term growth of the value of individual Group's companies while achieving the top quality of cars, as well as of all services rendered, is one of our major strategic goals. Achieving the top quality of all internal processes – from the product development through to its sale and subsequent service is a part of it.

A comprehensive care for employees and creation of working environment which supports motivation, performance and highly creative thinking of employees is the aim of the group's social policy. In pursuit of this goal, new, often highly qualified positions have been established and other activities conducted including long-term promotion of educational activities for the wide public in company's own education facilities, supporting the regional culture, sport and other welfare activities. Extending research and development activities which enhance the country's credentials internationally is an integral part of the mentioned strategy.

By adhering to stringent environmental requirements for its products in all phases of their life cycle Škoda Auto minimizes negative environmental impacts of its activities as a matter of course.

ECONOMIC SPHERE



Production and markets

Products

Škoda Auto currently produces five model lines represented by Fabia and Fabia Combi, Roomster (also in the Scout version), Octavia Tour, Octavia and Octavia Combi (both in versions RS and Scout) and Superb.

Another important aim of Škoda Auto is to minimize negative environmental impacts of its products particularly by abating the emissions of exhaust gas and noise.

An overview of currently* produced models



ŠkodaFabia
ŠkodaFabia Combi
ŠkodaFabia GreenLine
ŠkodaFabia Combi GreenLine

ŠkodaOctavia
ŠkodaOctavia Combi
ŠkodaOctavia RS
ŠkodaOctavia Combi RS
ŠkodaOctavia Scout



ŠkodaRoomster
ŠkodaRoomster Scout

ŠkodaSuperb
ŠkodaSuperb GreenLine

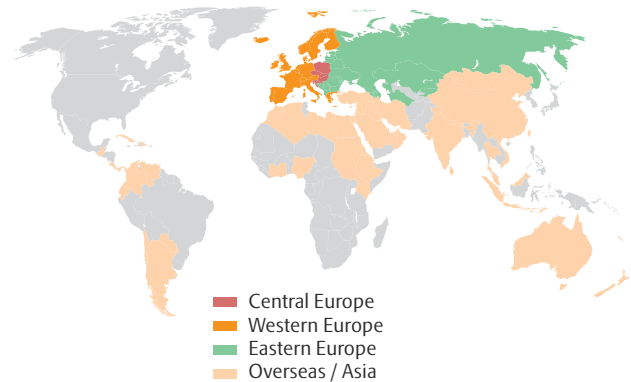


* Škoda Octavia Tour is derived directly from the former generation of the Škoda Octavia model.

Site development policy

Further strengthening of positions in Western Europe while maintaining dominant positions in the Central Europe is a strategic goal of the group with respect to markets. Entry to fast-growing markets like Eastern Europe and Asia through international projects and assembly plants is another priority.

Sales regions of the Škoda Auto Group



Economic and financial indicators

Like in previous years, also in 2007 the company's performance continued growing and its financial stability further strengthened.

In opposite to the previous year, vehicle customer deliveries increased by 14.6% to 630,032 cars and sales volume amounted by 12.2% and reached 623,023 cars. The achieved number of delivered and sold vehicles is absolutely the best result in the company's more than one-hundred-year history.

In relation to the sales volume, the company achieved also record-breaking financial results in 2007. As against the comparable period, the sales revenues increased by CZK 21.2 billion (+11.2%) and totaled CZK 211 billion. This sales revenues increase was particularly due to a higher volume of sold vehicles, appropriately selected model and site development strategy as well as higher sales of other products. The operating profit thus achieved a level of CZK 19 billion (+38.1%), pre-tax profit was at CZK 19.5 billion (+43.4%) and profit after taxation marked a year-over-year increase of CZK 5 billion (+46.1%). These record-breaking results were achieved despite unfavorable external factors. Among others we can name for example increasing prices of production inputs in world markets (steel, precious metals, oil, etc) and strengthening of the Czech crown against the euro and US dollar.

Compared to its level at 31 December, 2006, total assets marked an increase of CZK 8.1 billion (+8.3%). Fixed assets rose by CZK 2.9 billion to CZK 56.9 billion (+ 5.5%). Current assets marked a significant year-over year increase of CZK 5.2 billion (+11.9%) particularly as a result of higher current lendings to other group's companies and free liquidity. As against the last year, equity rose by CZK 8.5 billion (+14.7%). Overall, current liabilities dropped by CZK 1.2 billion year-on-year (-4.1%), while non-current liabilities rose by CZK 0.8 billion (+8.7%) as compared with the same period of the last year, this was mainly due to increasing the reserve for warranty repairs. Like in previous years, cash flow from operating activities of CZK 28.1 billion was sufficient enough to cover overall capital expenditures. The company's net liquidity amounted to CZK 25.2 billion. The development of aforementioned indicators is a strong evidence of the company's current financial stability and solvency for all existing and potential business partners.



Investment volume

The investment rate of 4.9% from the turnover enabled the company to ensure expanded reproduction, that is to say its growth potential and competitiveness in the given business field. The tangible and intangible assets additions (excluding R&D expenditures) in 2007 totaled CZK 10.3 billion (+25.1 %). In 2007 the company invested above all into the new generation of models Škoda Fabia and Škoda Superb, further, investments were made to enlarge production plants and improve infrastructure.

Speaking of investments we cannot forget Škoda Auto expansion by means of assembly projects abroad. In 2007 the company continued its already successfully established foreign assembly projects by launching the production of Škoda cars in the Russian Federation. Further, in accordance with its expansion strategy, it increased the share capital of its daughter company, Škoda Auto India, by CZK 780 million and its affiliation Volkswagen Rus by CZK 298 million.

Key data and financial results according to the IFRS*

Škoda Auto a.s.

		2005	2006	2007
Volume Data				
Deliveries to Škoda customers	vehicles	492,111	549,667	630,032
Sales total	vehicles	493,119	555,202	623,085
Production total	vehicles	494,637	556,433	623,529
Number of employees	persons	26,014	26,738	27,753
of which: temporary	persons	3,460	3,704	4,194
Profit and Loss Account				
Sales	CZK millions	177,822	189,816	211,026
Gross profit	CZK millions	18,635	22,107	30,161
	% of sales	10.5	11.6	14.3
Operating profit	CZK millions	10,004	13,776	19,021
	% of sales	5.6	7.3	9.0
Pretax profit	CZK millions	9,440	13,560	19,446
Pretax profit -to-sales ratio	% of sales	5.3	7.1	9.2
Profit after taxation	CZK millions	7,363	10,882	15,892
Profit after taxation-to-sales ratio	% of sales	4.1	5.7	7.5
Balance Sheet/Financing				
Fixed assets	CZK millions	55,023	53,936	56,903
Current assets	CZK millions	28,956	43,499	48,658
of which: lendings	CZK millions	11,200	23,950	25,554
Equity	CZK millions	46,483	58,007	66,532
Non-current liabilities	CZK millions	11,685	9,457	10,281
of which: nominal value of bonds	CZK millions	5,000	2,000	2,000
Current liabilities	CZK millions	25,811	29,971	28,748
of which: nominal value of bonds	CZK millions	0	3,000	0
Total assets	CZK millions	83,979	97,435	105,561
Cash flow from operating activities	CZK millions	21,421	24,203	28,146
Cash flow from investing activities	CZK millions	-11,299	-10,910	-13,913
Cash flow from financing activities	CZK millions	-11,298	68	-11,259
R&D expenditure	CZK millions	5,414	4,701	5,459
Investment ratio	%	4.8	4.3	4.9
Net liquidity	CZK millions	6,070	19,352	25,154
Equity ratio	%	55.4	59.5	63.0
Equity-to-fixed assets ratio	%	84.5	107.5	116.9

* IFRS - International Financial Reporting Standards

For more detailed information on economic situation in 2007, see the 2007 Annual Report of Škoda Auto (www.skoda-auto.com)

Corporate Governance

Škoda Auto is aware of its exclusive position within the Czech business environment as well as of its ever growing credentials within the Volkswagen group and among other competitive car manufacturers. Therefore, it is of paramount importance to the company to be perceived as a successful, transparent and informationally open company by its employees as well as business partners, clients and the public in general. The company is aware of its longtime history and its good reputation grown over the years, which perceives as a key value for further expansion of its business activities.

With respect to these facts, in 2007 Škoda Auto adopted relevant recommendations and rules of the Corporate Governance Code based on the OECD principles as published by the Czech Securities and Exchange Commission in 2004. The company's aim is to further promote transparency and ethical business practices among businesses in the Czech Republic by continuous improvement of internal processes and practices in accordance with the Code.

Code of Conduct of Škoda Auto employees

Together with adopting the principles of Corporate Governance the company also adopted the Code of Conduct of Škoda Auto employees. It is a set of concrete rules based on group's values and company's principles which stipulate standards of professional conduct of all employees. The Škoda Auto Code of Conduct applies to relationships between individual employees and management, conduct to customers and suppliers as well as to relationships to company on a local, regional, national and multinational level.

The purpose of adopting the Code of Conduct in Škoda Auto is not only to define desirable conduct of company's employees, but also to facilitate employees' decision making for example in non-standard situations. In its final effect, this voluntarily declared commitment should enhance the company's credibility, quality of internal communication and relationships with customers, business partners and various interest groups.



Code of Conduct at Škoda Auto

The purpose of this Code of Conduct (further only as the Code) is to establish the principles of conduct for Škoda Auto employees based on values honored by the company and generally recognized ethical standards.

Basic rules of the ethical conduct

- a. Everyone working for the Škoda Auto company is obliged to comply with the legislation of the country in which he carries out his work as well as with mandatory internal regulations of the Škoda Auto company. He is equally obliged to behave honestly and in compliance with **values** recognized by the company, moral principles recognized in place of his stay and respect traditions and culture of countries where he is employed.

Employees and management

- b. We, employees of the Škoda Auto company, irrespective of our gender, race, religion, political affiliation and nationality, have equal rights to due preparation for the performance of our jobs and further professional development. The same applies to the right to fair remuneration and job position adequate to our performance and quality of performed work.
- c. Esteem, **respect** and honest behavior are a basis for everyday contact and cooperation with customers, suppliers and company's employees, irrespective of the hierarchy.
- d. Managers are obliged to act as role models to their employees for their behavior to promote conduct which is in compliance with this Code.
- e. We create the corporate culture which is based on the **creation of values**, the corporate culture in which man is in the first place.
- f. Our objectives are ambitious, planning is realistic and reporting honest.
- g. **Innovation** is our everyday principle, we fight for our ideas, we are open to the initiatives of others and further develop them.
- h. In our acting we provide and we require margins to manoeuvre, which we use with responsibility. We are committed to mutual cooperation and seek for better ways towards achieving Škoda Auto objectives.
- i. We deliver **maximum performance** and continually develop our working abilities and skills. We are entitled to working conditions which will enable us deliver work to our best abilities.

- j. We efficiently use company's resources protecting them from inappropriate use or damage. In professional as well as business communication we put the company's interests above our own.
- k. Each employee feels responsible for the long-term and **sustainable development** of the Škoda Auto company and contributes to the balance between economic, environmental and social objectives of the company.

Approach to customers and suppliers

- l. Helpful **approach to customers** is our priority, we honor the legacy of Škoda Auto founders, Sirs Laurin and Klement, that "only the best we are capable of is good enough for our customers". Our internal standards are driven strictly by needs, expectations and desires of our customers.
- m. When carrying out our working duties, we place high demands on ourselves with the aim of fully satisfying the customer contributing thus to the company's good reputation.
- n. It is our interest to maintain good and long-term relationship with customers and suppliers which is based on trust and high quality mutual services and their continuous development.


Social responsibility

- o. We always act with **the responsibility** to the world around us in mind. We strive to contribute to the development of the world in which we live at the regional, national as well as international levels. We support charity, educational and welfare activities.
- p. We consistently avoid the conflict of interest. We lay emphasis on meeting information duties and correct reporting.
- q. We strive to be successful, but never at the expense of the applicable legislation and ethical principles.
- r. We seek to reduce potential harmful environmental impacts to a minimum.

Adherence to the Code

These principles are mandatory for all Škoda Auto employees

Mladá Boleslav, September 2007



D. Wittig
Chairman of the Board
of Directors



M. Jahn
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Technical Development



SOCIAL SPHERE

Employees

Human resource policy

A great emphasis has been laid on the communication with employees in Škoda Auto. Two trade-union organizations exist in the company, the dominant ZO OS KOVO and organization of independent trade unions. Social dialogue has been promoted in all areas of activities. The company's supervisory board is comprised of six members, two of whom are employee representatives.

The cooperation takes place also at the common board level, such as, for example, the Business Committee, Company Committee for Occupational Health and Safety, HR Planning Committee, Strategic Commission for the Environment, Health Committee and others. The cooperation with employee representatives within the VW Group is ensured by the interconnection of trade union structures and their integration into the VW European Works Council and Global Works Council. The relations between employer and employees are governed by the most recent collective agreement.

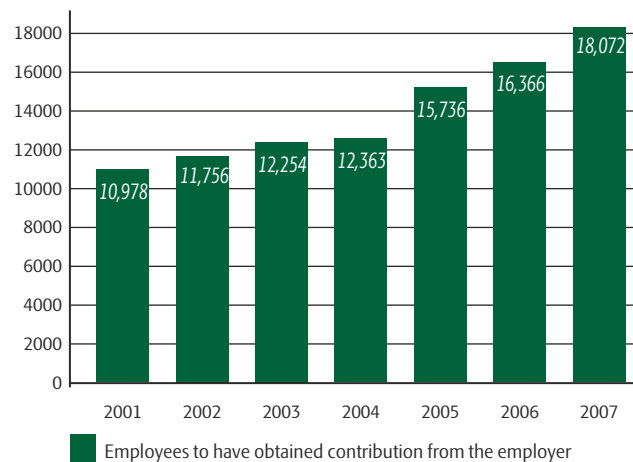


Social benefits

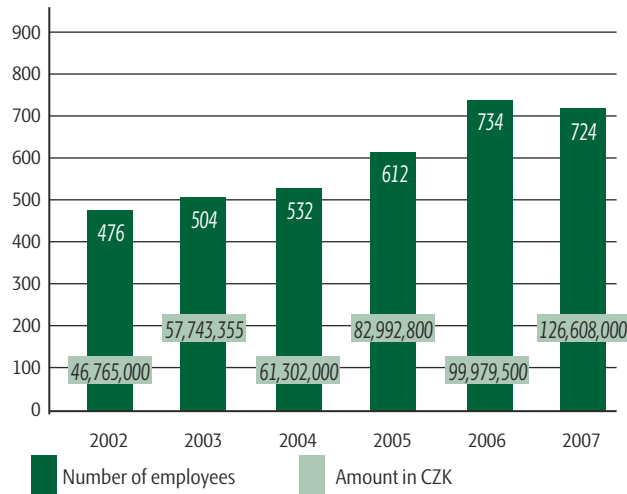
Employees of Škoda Auto enjoy a wide range of above-standard benefits which are provided for in the collective agreement. They include for example supplementary pension insurance covered by the employer. In 2007, the employer's contribution to the employee's pension insurance increased by one third to CZK 400 and in 2008 to CZK 500. More than three in four employees utilize this benefit.

By offering its employees interest-free loans the company helps solve their housing issue (CZK 300,000 for purchasing a family house or flat and CZK 100,000 for the refurbishment of a privately owned family house or flat). More than 700 employees utilize this benefit every year.

Supplementary pension insurance of employees



Housing loans



Hotel-type guesthouses are available to selected employees who cannot commute daily from their place of residence. An employer-organized transfer to/from work is available to employees from certain recruitment areas, where there is no public transport connection to the main shift starting times or regular connection cannot be used.

The possibility to take meals in company's non-smoking facilities, where more than 9,000 hot meals subsidized by the company are served every day, contributes to the improvement of working conditions too.

Škoda Auto devotes considerable resources to social policy programs for its employees and in many case also for their dependants. A social fund has been established for this purpose.

Distribution of resources from the social fund in 2007

Trade Union activities	9,679,000
Recreation	16,507,078
Health programs, leisure	17,370,149
- health programs	8,647,267
- leisure	8,722,882
- sport	8,512,082
- culture	210,800
Employment anniversaries	50,665,083
Contribution granted at the child's birth	3,661,000
Social contributions	11,853,947
- contributions at the retirement	11,513,430
- contribution at the employee death	340,517
Secondary vocational school	205,252
Retired employees	141,000
Meal vouchers	31,150,709
Reserve (+ nurseries)	128,840
TOTAL (actual situation in CZK)	140,362,058

The company provides employment opportunities for people with disabilities at suitable sheltered workplaces. It employs dedicated HR personnel to solve the situation of selected groups of employees who cannot continue their former profession for health or other reasons.

At the end of 2007, two internal sheltered work areas were in place with an overall of 60 employees and another working area of 1,080 square meters was opened in March 2008. Up to 50 employees will be employed at this workplace.

The corporate Seniority Program is aimed at the needs of the elderly employees and offers movement to another job position with guaranteed former income for certain period of time, professional re-training, employer-subsidized rehabilitation stays, up to five paid days off, prevention health programs, etc.

In regions, where the company operates, it promotes higher-quality use of leisure time not only among employees and their families, but also among other citizens. Support has been provided particularly to increase culture, social and sport opportunities in these regions. Among other, we can name support of the Municipal Theatre in Mladá Boleslav or the Festival of European Film Smiles.



Healthy company

The Healthy Company project running in Škoda Auto involves a wide range of measures, whose aim is to enhance employees' health and promote responsible approach of employees to their own health. The project focuses on three main areas – health support, healthy eating and sickness

rate reduction. The first area involves measures to improve working conditions, stronger support for breaking away from smoking, vouchers for preventive rehabilitation, free vaccination against influenza and distribution of vitamin preparations and immunopreparations at workplaces with a high sickness rate. In 2007, for example, 22% of employees were vaccinated against influenza, which is almost three times the Czech average.

Healthy eating with an emphasis on energy and other parameters of meals, promotion of vegetable meals and fruit intake is another core issue.

We expect this project to result in the decline of obesity risks (and obesity associated diseases like cardiovascular system diseases, diabetes, circular system diseases or cancer), influenza and other virus and airways diseases. Health was promoted among employees also within the “13 Days for Health” project in which more than 2000 employees actively participated.

It is also thanks to the “Healthy Company” project that the company's sickness rate has remained low at half the republic's average in the recent years.

13 DAYS FOR HEALTH 2007 in Škoda Auto participation of more than 2000 employees

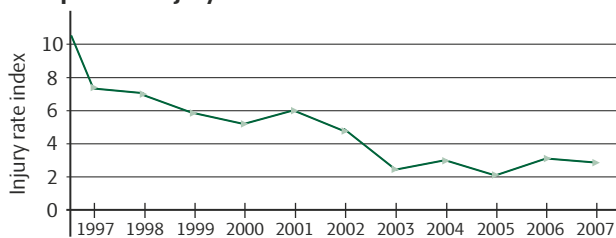
Measuring the BMI	Vaccination against influenza
Measuring the blood pressure	Measuring the muscle mass
Spirometry	Measuring the body fat percentage
Cholesterol	Testing the physical fitness on a stationary bicycle
First aid	Rehabilitation consulting, healthy lifestyle, exercises, OHS activity

Occupational health and safety (OHS)

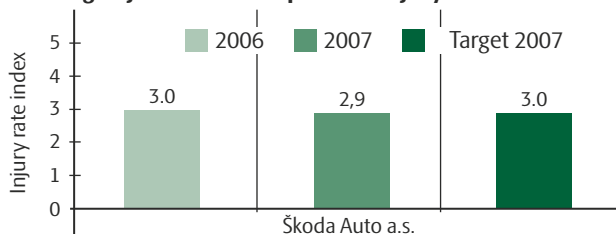
Škoda Auto pays continuous attention to the development of occupational injury rate index. Injury rate index is expressed as the number of occupational injuries per one million of worked hours. With its injury rate index Škoda Auto has already long been ranked among the better half of production plants within the entire VW group. In 2007 the injury rate reached value 2.9.

A number of preventive measures have been adopted including increasing the efficiency of employee OHS training through a higher standard of trainers' knowledge, user friendly working clothes for employees with optic safety features, consistent horizontal marking of transport pathways in production plants, etc. The cooperation with OS KOVO and its proactive approach plays an important and very positive role in the entire OHS issue.

Occupational injury rate in Škoda Auto a.s.



Meeting objectives in occupational injury abatement

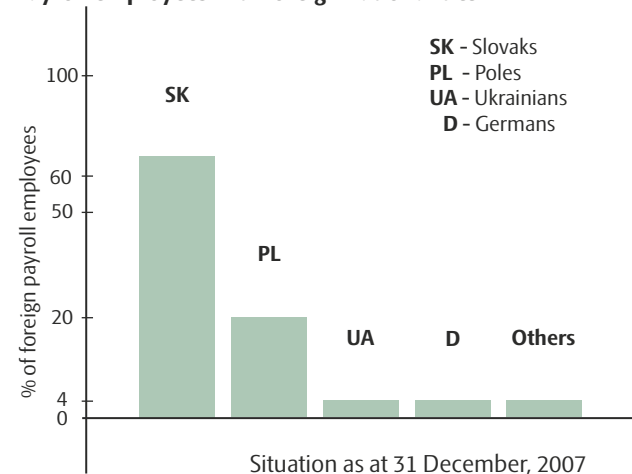


Equal opportunities

Škoda Auto pays particular attention to the issue of equal opportunities. Women working night shifts have been offered special exercises and concessions. Women on maternity leave can keep their company cars and computers and have been invited to attend corporate social events and have been regularly informed about current events in the company. The company financially supports the stay of its employees' children in nurseries (30% of its cost) and pursues the objective of increasing the proportion of women managers.

The Škoda Auto company faces challenges arising from growing number of foreigners among its employees. At the end of 2007, Škoda Auto employed 1,700 foreigners from 28 countries in the Czech Republic. The company seeks to facilitate their living and working in the country by offering them language courses, ensuring intercultural training of managers or by the presence of translator at the workplace for example.

Payroll employees with foreign nationalities



Sponsorship

Promoted values

Škoda Auto honors particularly the values which embody its long-term philosophy. It supports organizations and institutions at local and regional as well as national and international scales. Moreover, Škoda Auto supports a number of social and charity project and aids disabled citizens in their effort to lead a fulfilling life.

striving for good performance
endurance
will for victory
team thinking

Sport events

Since 1992 Škoda Auto has been continuously supporting the Ice Hockey World Championship. The company is the holder of official record in the GUINNESS WORLD RECORDS™ as the longest lasting main sponsor. In 2004, it became the main partner of the famous Tour de France and in October 2007, this partnership was extended until 2011. Škoda Auto is the general partner of the Czech Olympic Team. Further, the company sponsors the national cyclocross team and the Czech Ice Hockey Extra-league.



Škoda Auto is a traditional partner of the Czech Philharmonic Orchestra and National Theatre. It supports selected international events outside Prague, like the Smetana Litomyšl International Opera Festival or International Film Festival for Children and Youth in Zlín. Škoda Auto has established a close cooperation with the Czech Environmental Partnership Foundation and became the general sponsor of the Cesty k městu competition which promotes quality traffic solutions to calm the traffic in Czech towns and villages



Social, humanitarian and environmental involvement

Škoda Auto supports the Paraple centre (run by the Union of Paraplegics) on a long-term basis by providing cars with manual controls which partially help patients in their effort to return to a fulfilling style of life. Other projects supported by the company include the Forum 2000 Foundation, Foundation of the Baroque Theatre in Český Krumlov, Adra and Člověk v tísní Foundation of the Czech TV, Foundation for Cancer Research, the Paralympic Committee, the Oncological Care Centre.

Škoda Auto further continued the long-term project of Healthcare Clown, a non-profit organization which provides for professional clowns to visit seriously ill children all around the Czech Republic under the motto "Laughter is the best medicine". Within the project Children's Traffic Playgrounds the company supported the operation of the only traffic playground in Mladá Boleslav and its environs and the biggest playground in Náchod.

In 2007 the factory launched the project One planted tree for each sold car in the Czech Republic reflecting a proactive approach of Škoda Auto to environmental protection. In 2007, some 65,171 European beech plants were planted in cooperation with the České Švýcarsko National Park within the restoration of unique forest ecosystems.



External relations

Government, European Union and international institutions

Škoda Auto seeks good relations with government and self-government representatives. It is actively involved in working groups established by individual government departments for tackling various issues including CO₂ emissions, car wreck disposal, employee policy and entry of the Czech Republic into the European monetary system. By its proactive approach it provides feedback to the Czech government and in cooperation with other members of the VW Group also to EU institutions for the preparation legislation. The company and its employees belong to important contributors to public budgets (only in 2007 more than CZK 9.9 billion was paid in the form of taxes and mandatory payments to social insurance and health insurance funds). Influencing of political development is based exclusively on mutual exchange of information with political representatives.

Towns and regions

During 100 years of co-existence tight bonds have formed between all three towns, where Škoda Auto has its production plants in the Czech Republic, and the company. It is the most obvious in Mladá Boleslav, where the factory's employees account for more than 75% of economically active people in the town and the factory covers about one third of the town's size. Škoda Auto and the town of Mladá Boleslav closely cooperate in various areas, particularly in construction, culture, sport, education and health service. Company representatives actively participate in the work of municipal committees established for particular purposes (transport, housing, criminality etc).

The car factory supports sport and culture events in the town and region, health institutions and hospitals in the places of its location. The company has opened its own Škoda Auto college, secondary vocational school of technical engineering and secondary vocational school, it supports the development of other education facilities as well.

Suppliers

In relation to ever strengthening competition on the market and tightening legislation, the company is faced with continuously growing requirements. The quality of finished product depends, besides other, on the quality of supplied parts and materials. Therefore, Škoda Auto requires a higher degree of suppliers responsibility for quality, and consistent quality of supplies in particular, in compliance with norms ISO 9000 and implementation of TQM (Total Quality Management). The aim is to use suppliers who comply with environmental requirements as well (93% of supplies come from suppliers who comply with the highest environmental standards of ISO 14001).

Škoda Auto Museum

The Škoda Auto museum has been established for the purpose of obtaining, gathering, permanently maintaining, registering, refurbishing and professionally processing museum collections and making them accessible to the public. Through scientific or popular science activities the museum presents materials held in archives helping thus create the picture of company in historical context.

In cooperation with the Hapestetika association and Institute for the rehabilitation of persons with vision impairment, the Škoda Auto museum was made accessible to visitors with

vision impairment in 1999. The exhibition is provided with legends in Braille, relief pictures of exhibits and guides have been especially trained for this purpose.

Besides it, visits of the Škoda Auto factory premises have been organized. Guides giving erudite commentary in several languages are available to visitors throughout the entire tour.

Materials with sustained value for the society, may it be from historical, documentary or scientific point of view, are held and administered in a professional manner and systematically processed in the archive of Škoda Auto which is a part of the museum. The archive assists in search for historical documents and materials to experts as well as the general public, to internal enquirers as well as externs.

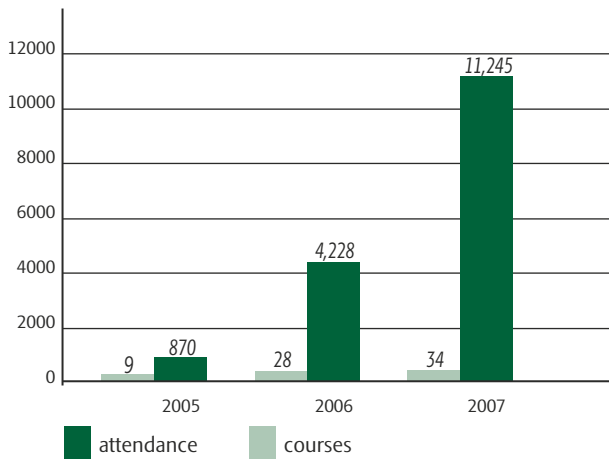


Education

Personal development

In global competition, the company faces on the car market, the only companies to celebrate success are the ones with qualified employees. Faced with growing technological demands of production and ever-changing market, all employees must continually improve their skills and develop new capabilities. Škoda Auto has therefore incorporated employee education among its investment priorities. The company pays considerable attention to extending and increasing the qualification level of its employees. Adult education scheme offers a wide range of activities which support employees in their personal development and are in accordance with the company's strategy. In addition to the standard offer, tailor-made programs prepared based on requirements of individual business unit leaders are the latest trend. In order to support education and increase its flexibility, the company has successfully implemented e-learning education.

Increase in the number of e-learning courses



In 2007, 37,404 company employees attended a total of 4,005 training courses. In next years, more emphasis is planned to be laid on the efficiency of the training – more importance will be attached to e-learning (electronic) courses and their number, with a focus on blended learning, more support for combined forms of learning with an emphasis on individual consulting, employment of action plans and other tools to support the application of obtained knowledge in practice. Another aim is to boost the top down training.

The composition of training participants is expected to change – the percentage of employees from foreign Škoda Auto plants will grow.

In compliance with the corporate philosophy, the company trains and develops its future managers on a long-term basis following structured scheme which relies primarily on its own resources. Škoda Auto managers are given opportunities for further personal development in the form of various activities domestically as well as abroad. Company's specialists and managers have been actively involved in a number of international projects within the Volkswagen Group. Special attention has also been paid to development programs for lower and mid-management – team coordinators and foremen.

Personal development programs are aimed at students and university graduates. They have an opportunity to get to know the company and its operations through the JUST-Pool and Trainee programs and to obtain the first experience in practice and consider the possibility of their future employment in the company. Thanks to its cooperation with universities, Škoda Auto can influence specialization of students by organizing practical training programs in its plant or proposing subjects for theses for example.

Corporate college and secondary vocational school

As far as the education is concerned, the company holds an absolutely unique position among Czech companies. It manages its own secondary vocational school with more than 900 students which trains future technical employees of the company.

It manages the first and so far the only corporate college in the Czech Republic, which holds the accreditation for bachelor's as well as master's degrees in Economics and management. In this academic year (2007/2008) 740 students are enrolled.



The college management's mid-term goal is to obtain the accreditation for the Doctor's degree and a study program in a foreign language. Our teachers and students are involved in international student exchange programs like Sokrates or Erasmus, cooperation is being prepared within

the Group's Auto-UNI, we have students from VW Slovakia enrolled into our college. Currently, the Škoda Auto college cooperates with a number of domestic as well as foreign institutions, universities and technical colleges within various educational projects, student exchanges, seminars and courses, conferences and on the preparation and possibly organization of internationally recognized language exams. The involvement of the college into the EU educational programs is one of further goals.

Partnership of Škoda Auto with universities

The cooperation with universities takes place at several levels by means of sponsorship, joint research and development projects, orders made by Škoda Auto, internships and lectures.

In 2006 the company established the Committee for University Sponsorship, which distributed almost CZK 6 million among universities for selected projects in 2007.

It is a part of the company's efforts to attract qualified employees, increase innovation potential of universities and last, but not least, promote the cooperation of universities and industrial companies on joint research projects.

Direct cooperation on particular development projects has more than quadrupled since 2000, further increase is expected in the number of joint research projects for the entire VW Group. The main partner universities include Czech Technical University in Prague, Technical University in Liberec and University of Western Bohemia in Pilsen.

Almost 700 students, of which 140 foreign students, pass internships in Škoda Auto every year.

Na Karmeli Education centre

The opening of the Na Karmeli education centre in August 2007 was the most important event of the recent years indeed, whereby Škoda Auto confirmed its long-term intention to continually improve and advance education of its employees, both existing and future employees by means of own college. The modern campus came into existence by the reconstruction and rebuilding (worth CZK 390 million) of a dilapidated former monastery. Besides modern facility for students and education of adults, there are also top laboratories for research and development. The Na Karmeli centre can accommodate up to 800 students. Besides the Škoda Auto College, it will also accommodate a part of Technical University of Liberec with whom the motor works closely cooperates on technical development.



Thanks to the unique interconnection of the education centre and new company's Technological centre constructed nearby, students will have an opportunity to learn about the latest trends in car development and the company will be able to find the best among students based on their work in research projects, who will be offered a job after their graduation.

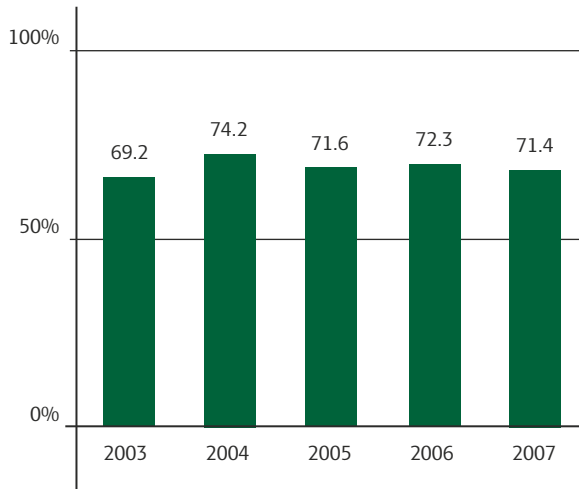
It is perhaps symbolical, that this unique, private education facility is located at the place, where education activities of Friars Minor and later Bohemian Brethren flourished as early as in the 14th century.

The education centre is not intended only for the needs of the college, but also for corporate training of existing employees. Besides it, the community premises including the baroque church host graduation ceremonies, matriculations and various corporate, culture and social events. By completing the entire project in cooperation with the corporate town of Mladá Boleslav conditions have been created for the development of human resources in the entire region and the neglected part of historical town centre has been revived at the same time.

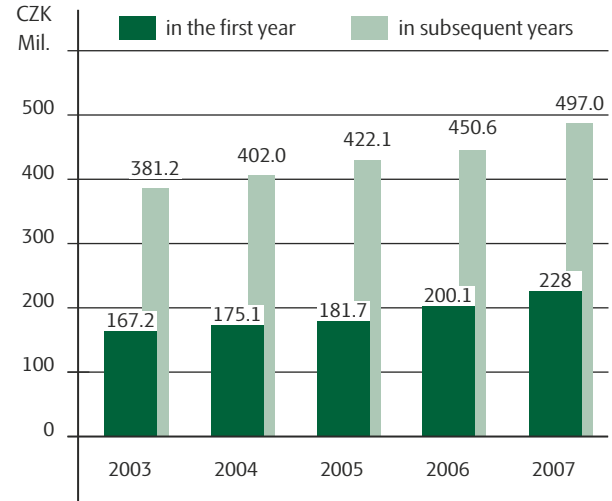
Innovation activities

Škoda Auto also provides considerable support to activities contributing to continual improvement and innovation which have a positive impact on the functioning of the company. The Z.E.B.R.A. motivation program is one such tool. Innovation activities are aimed particularly at material savings, increasing the efficiency of production, improving the working and living environment and enhancing the protection of employees as well as that of future users of Škoda products. In 2007, 4,067 employees took part in this program and 8,477 improvement proposals were registered. The financial gains of implemented proposals amounted to CZK 228 million and 71.4% of proposals were successfully turned into practice.

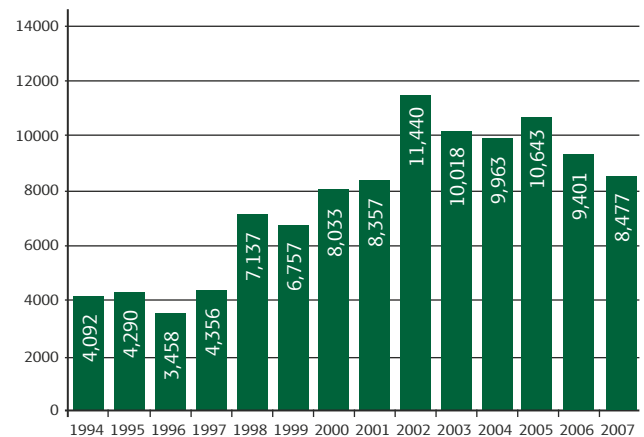
Successful Z.E.B.R.A. proposals



Savings resulting from succesful Z.E.B.R.A. proposals



Improvement proposals submitted in years 1994 - 2007



ENVIRONMENT



Technical development

Products and environment

Škoda Auto develops cars and engines recognized for their high quality, environmental friendliness, timeless design and a number of clever technical innovations (in line with Škoda's motto Simply Clever) to meet customers' wishes. Environmental protection is an important criterion taken into account in developing cars and engines.

Škoda Auto continually improves its products, particularly with respect to air and climate protection, efficient use of resources and protection of health.

Protection of air and climate

More stringent emission limits, particularly those for CO₂, are of a challenge at present and a prerequisite to sustainable development of the society.

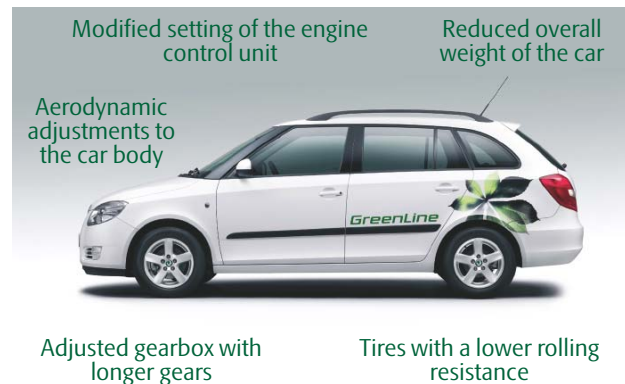
Škoda Auto offers its customers petrol and diesel engines complying with stringent emission limits of the EU. It systematically works on further improvements in engines, control units, gear adjustment, car's aerodynamics, including lower weight and use of alternative fuels.

Serial Fabia cars with the 1.4 TDI/59kW engine achieve CO₂ emission level of 120 g/km and a number of further models do not exceed the level of 140 g/km. Emission levels (CO₂, solid particles, NO_x, etc.) have been further reduced within the development of new models and optimization measures with the aim of achieving the EU5 future emission regulation as well as so called Flottenverbrauch (average fuel consumption of produced cars across model lines) approved by the European Parliament for year 2012.

Škoda car engines are characterized not only by a favorable low consumption-performance ratio, but also sustained high quality, low operating costs as well as excellent environmental parameters.

GreenLine

Škoda Auto has prepared a special line of products labeled as "GreenLine" for its customers, especially developed with the aim of reducing CO₂ emissions. A modification of 1.6 MPI/75kW engine of Octavia intended for selected markets enables the use of E85 fuel (85% of bioethanol and 15% of petrol). Environmental friendly models Fabia and Fabia Combi bearing GreenLine label with substantially reduced CO₂ emissions (109 g/km in Fabia) and lower consumption of fuel (by up to 15% as compared with the standard version) are a clear expression of company's responsibility for healthy environment. The stated parameters have been achieved by particular engine and gearbox settings, features to reduce aerodynamic drag and diesel particle filter (DPF), thanks to which adherence to the limit for solid particles stipulated by norms Euro 5 and Euro 6 has been already achieved. Besides Fabia GreenLine cars, this environmentally friendly line has been extended by the new Superb GreenLine model at the beginning of 2008 fitted with the 1.9 TDI PD DPF/77 kW diesel engine generating CO₂ emissions of 136 g/km.



Protection of health

The protection of health is an essential factor in developing cars for Škoda Auto. Škoda Auto pays considerable attention to safety, reducing levels of external and internal noise, vibrations and use of harmless materials in construction of cars.

Active safety features - prevention of car accident (new electronic systems, lights, air-conditioning) and passive safety features - lessening the risk of injury to all persons involved in a car accident (retaining systems and car body absorbing the energy of impact).

Complex evaluation of acoustics with respect to driving comfort and degree of burden to the environment (aerodynamics, resonance, noise of rolling tires) is a part of demanding tests and trials in car development. Owing the use of progressive acoustic materials and their effective arrangement Škoda cars achieve required acoustic properties. A lower noise level is the result.

Efficient use of resources

Savings and efficient use of resources in Škoda Auto have been achieved by optimizing the weight of products, using recycled materials and implementation of new modern technologies.

Virtual engineering tools have been used in the development of vehicles, which enable exacting simulations and calculations. A very flexible consideration can be made of various solution alternatives and optimize the construction of parts with respect to their robustness and stress. The motor works has been increasing the proportion of light construction materials (non-ferrous metals, high-strength sheet metals, plastics, etc.) contributing thus to a more rational use of raw materials and minimization of wastes. Individual processes in relation with new regulation 2005/64/EC (achievement of recycling quota, marking of parts, prohibition of heavy metals, etc.) are certified by the independent accredited TÜV SÜD Czech company.



Production sphere

Corporate approach to the environment

The Škoda Auto company offers top quality cars whose production always represents minimum environmental burden. By fulfilling requirements in timely and consistent manner of ever tightening legislation and commitments declared in the Škoda Auto Policy the company successfully pursues the strategy of continual improvement of environmental protection and complies with all legal limits and duties in this respect with a great safety margin.

It has been contributing thus to sustainable development and showing its sensitive approach to life and nature. The extension of the certificate for its environmental management system according to ISO 14001:2004 in the certificate extension audit at the end of 2007 for another three-year period is a proof of it as well as the fact that no penalties have been imposed on the company by state authorities in the past five years for a breach of environmental duties, nor has it be subject to any administrative proceedings for removal of any drawbacks in this respect.

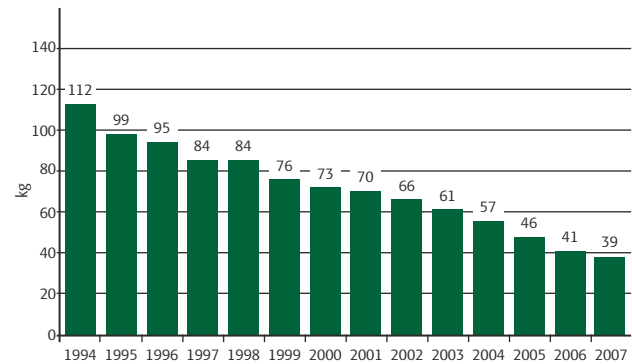


Waste management

Škoda Auto has pursued a long-term strategy aimed at preventing the waste from occurring in the first place, further at reducing its volume and hazardous properties, giving priority to its reuse. Only when it is impossible, the waste has been disposed of in a way, which is the most sensitive to the environment.

The degree of strategy effectiveness can be documented by the development in the amount of waste generated (excluding metals) per one produced vehicle. While in 1997 this indicator was 84 kg/vehicle, in 2007 it was only 39 kg/vehicle. Of the total amount of waste generated in 2007 only 10.5% was disposed of at landfills or burnt at incinerators.

Generation of waste (excluding metals) per one produced vehicle

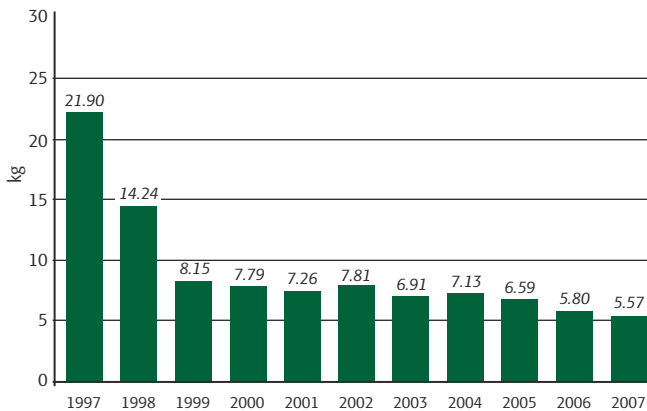


The majority of waste, including metals, was further reused. These include for example glass, paper, waste oils, solvents, cables, toners, foundry sand, plastics and plastic foils. Special attention has been paid in the recent years to separated waste collection and reuse of materials from non-returnable packaging and office paper.

Protection of the air

In 2007 Škoda Auto managed a total of 287 air pollution sources which in all cases complied with legal emission limits. The main sources of emissions include industrial car-body paint shops and power sources which account for 95.6% of all emissions.

Emissions into the air per one produced car



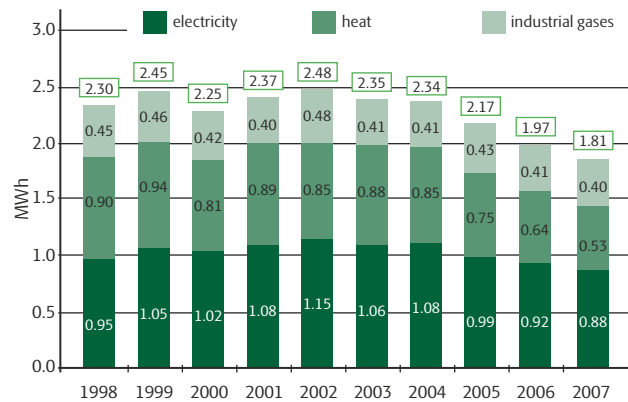
Note: since 1997, major power sources have been operated by ŠKO-ENERGO s.r.o.

In the recent years the factory has considerably reduced emissions into the air, not only per one produced car but also in absolute value. Thanks to the use of modern technologies in production, emissions dropped by more than 55 % from 1997 to 2007.

Modern car-body paint shops in Mladá Boleslav and Kvasiny use mainly water-based paints. Generated emissions of organic substances are burnt together with natural gas and generated heat is used for heating. Revamp of energy sources and foundry operations made a considerable contribution to reducing emissions of sulphur dioxide, nitrogen dioxide, particulate matter and nitrogen monoxide.

Even despite increasing production of cars, thanks to rationalization measures the company has been successfully maintaining the consumption of power at about the same level for several years already, preventing thus emissions, including greenhouse gases, from growing and saving the environment. The consumption of power per one produced car dropped below 2MWh in 2006 and 2007.

Consumption of power per one produced car

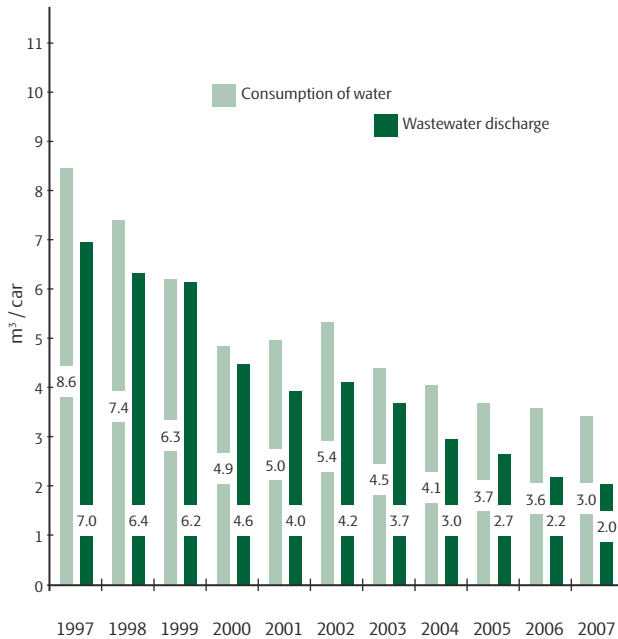


Protection of soil and underground water, water management

Substances harmful for water system are handled only in premises, facilities and pipelines sufficiently secured against leaking, for which emergency plans have been prepared and which are provided with equipment for handling potential leaks. By the end of 2007, clean-up had been completed worth CZK 559 million of more than 80% of environmental burdens requiring remediation. The clean-up work in Kvasiny and Vrchlábí plants has been finished. One of the Company's most fundamental tasks is to keep water consumption to the bare minimum and return water to the ecosystem while reducing environmental burden to a minimum.

The success of measures we have taken to fulfill this task is reflected in water consumption and wastewater discharge figures per vehicle produced, as well as by the fact that, thanks to newly implemented technologies, the quality of discharged wastewater is substantially higher than prescribed limits.

Consumption of water and wastewater discharge per one produced car



Environmental protection in new investment projects

The Škoda Auto company has currently seen a period of massive upswing of car production which is unfeasible without revamp and enlargement of production base. The effectiveness of environmental protection measures has been decided upon already at the phase of investment project preparation.

All facilities with environmental impact must therefore feature the best available technologies, while fulfilling the principles of environmental protection of the VW Group which are beyond legislation stipulations and are applied worldwide.

In this respect, Škoda Auto has obtained integrated permits in the recent years for its car-body paint shops in Mladá Boleslav and Kvasiny and for foundries in Mladá Boleslav issued pursuant to the Act on Integrated Prevention.

It has further obtained the consent of state authorities based on the Environmental Impact Assessment (EIA) process to further increase the capacity of car-body paint shop in Mladá Boleslav, construction of new technology centre for research and development in Mladá Boleslav, enlargement of Octavia car assembly shop in Mladá Boleslav and for prepared expansion of its plant in Vrchlabí.

The company continued clean-up work in older halls for machining, pressing and welding of the Mladá Boleslav plant whose final stage will include the application of new flooring sealed against the leakage of harmful substances to the underground. A new system of loading produced cars onto double-deck trains with unique system of wagon shifting was introduced in the Kvasiny plant. It enables to dispatch most of produced cars by railway instead of by trucks, which significantly reduces environmental burden of emissions into the air and noise.

The factory has also introduced new, more environmentally friendly way of protecting car bodies of produced vehicles during the transport to clients premises. The former water-based wax coating, which had to be removed at the sales point by a preparation containing organic solvents, has been replaced by adhesive foil. The foil is harmless and resulting waste is recyclable.

Important environmental indicators

Despite production of cars having more than tripled from 1991 to 2007, the absolute level of environmental burden has not grown proportionately and some indicators even dropped, like emissions into the air or consumption of water.

A well-established and efficient environmental protection policy, consistent implementation of its principles already at the project phase of new investments and enhancing the awareness of responsibility among all employees for the preservation of nature for future generations are a guarantee of further reducing company's environmental impacts related with planned car production growth in the next years.



Škoda Auto key environmental indicators

indicator	unit	2005	2006	2007
total consumption of energy	GWh	1,072.9	1,094.8	1,128.0
of which: electricity	GWh	491.7	512.0	546.7
heat	GWh	371.2	354.2	334.1
industrial gases	GWh	210.0	228.6	247.2
total consumption of water	K m ³	1,820.6	1,974.5	1,886.9
total consumption of water	t	1,780.9	1,814.7	1,953.4
of which: VOC	t	1,462.2	1,495.2	1,613.9
NO _x	t	102.8	132.1	155.5
SO ₂	t	0.2	0.2	0.3
CO ₂	t	190.4	160.0	150.9
particulate matter	t	22.2	24.9	30.4
CO₂ from power generation	t	47,675	51,981	54,920
total amount of waste	Kt	147.5	151.8	174.3
of which: metal waste	Kt	124.3	130.2	150.2
hazardous waste	Kt	7.4	8.0	8.5
other waste (excluding metals)	Kt	15.8	13.6	15.6
proportion of waste for reuse and recycling	%	86.3	88.1	88.4
discharged wastewater	K m ³	1,315.2	1,226.8	1,233.4
harmful substances discharged in wastewater				
Chemical oxygen demand (COD)	t	418.9	422.8	491.3
Biochemical oxygen demand (BOD)	t	72.3	176.9	170.1
Insoluble substances	t	51.2	41.2	68.7
Inorganic salts	t	1,517.0	1,715.2	1674.1
Non-polar extractable substances	t	0.7	0.6	1.0
Investments in environmental protection	M CZK	349.6	192.6	256.1

Maintenance services

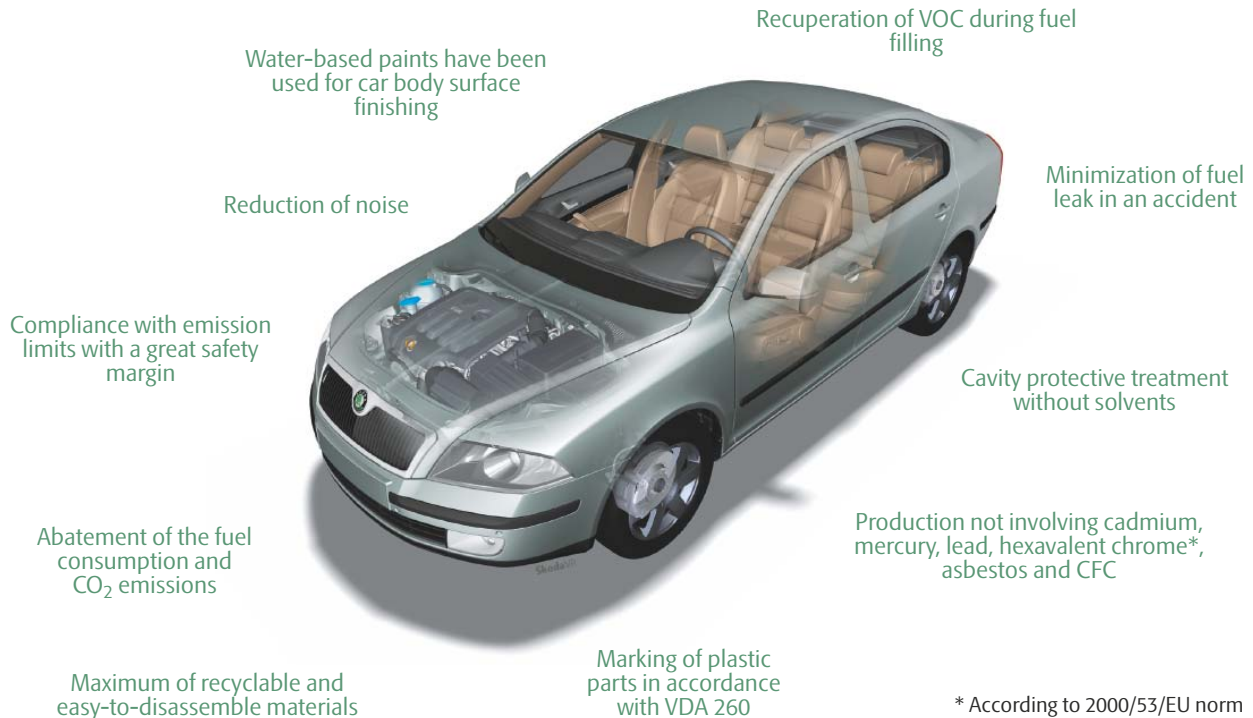
Environmental protection in the sales network

Adherence to the principles of waste management (separation of waste), air and water protection (storing of hazardous substances) principles belong among priorities of Škoda Auto on which the company focused in its activities conducted within its sales and service network. In 1996 qualified and

flexible Environmental Protection Counseling Service was established, whose aim is to implement a quality environmental management system in each of its business partner shop . Dealers, who successfully pass the environmental audit and/or eliminate shortcomings, will receive the prestigious certificate of environmental friendly approach or so called Green Seal.

Currently, the Green Seal is held by 85 dealers. Besides other, Green Seal holders can enjoy advantage of annual premium discount provided by insurance companies.

Environmental friendly vehicles



Take-back and processing of car wrecks

Motor works' activities do not end by car sale. Already in the phase of production, the company has to be aware of the fact that it is obliged by law to ensure environmental friendly processing of its products at the moment they come to end of their lives. Since 2005, the manufacturers in the Czech Republic have been obliged by the Waste Law to ensure free disposal of their brand vehicles at the end of their life through a network of certified recycling facilities.

The vehicle submitted for free disposal must be complete, must not include any parts, accessories or wastes that are not an original part of it. Having handed over an end-of-life vehicle for disposal to a certified recycling facility, the owner will receive a certificate of disposal to be submitted to the car registration office, which will then de-register the car.

Škoda Auto has appointed Callparts System to manage and coordinate the recycling network for car wrecks of selected VW brands in the Czech Republic. A total of 6,422 auto wrecks of Škoda brand were disposed of within the aforementioned processing network in 2007.

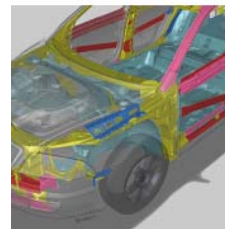


Take-back of selected products

Take-back of selected products sold by Škoda Auto is another duty pursuant to the Waste Law. These include particularly used car batteries, tires and oils. At the end of their life, the owner can return them in the sales network.

Going beyond duties stipulated by law, the company in cooperation with windscreen manufacturers and suppliers ensures the collection of waste glass from warranty repairs from service shops and production facilities for the purpose of its further recycling. In year 2007 alone, 91 tons of glass were processed.

Production



Development



Reuse, recycling

Certificates



Based on the results of the integrated management system certificate extension audit conducted at the end of 2007 by TÜV Nord, the company has been extended certificates for the quality management system according to ISO 9001:2000 and environmental management system according to ISO 14001:2004 for another three years. In July 2007 Škoda Auto has obtained a certificate of preliminary approval from TÜV SÜD Czech which certifies that the company has adopted and complied with measures necessary to fulfilling requirements for the type approval of vehicles for recycling and reuse.

The certificate is necessary for granting the type approval according to regulation 2005/64/ES – Recycling.



Awards

Škoda Auto participates in the majority of world prestige competitions, in which the assessment is carried out by experts as well as by the lay public. Among awards which worth mentioning, we can name the first place of Škoda Roomster in the Car of the Year 2007 competition in Estonia, Finland and Bulgaria, Škoda Fabia became the most successful car in Serbia. Besides it, Škoda Roomster was awarded as the best Family Car of the Year in Belgium. Škoda Roomster, Octavia and Superb placed first in the poll of European readers as Best Cars of 2007. Škoda Fabia also won the Golden Steering Wheel 2007 competition.

The Škoda Auto company has won the Zlatý středník (Golden Semicolon) Award of the Czech PR club for its corporate newspaper Škoda Mobil. Škoda Auto won the Czech TOP 100 contest in 2007 for the ninth consecutive time as the most admired company in the Czech Republic.

Useful links

More about sustainable development of Škoda Auto
<http://new.skoda-auto.com/COM/about/perspective/environment/>

More about sustainable development of Volkswagen
<http://www.volkswagen-sustainability.com>

More about sustainable development of VW suppliers
<http://www.vwgroupsupply.com>

Škoda Auto College
<http://www.savs.cz>

Contributors to the Sustainability Report

Environmental, occupational and fire protection - Jan Havelka

Corporate communication - David Šíkula

Product adjustment - Marko Kosovič

Technical information - Ladislav Drapák

Relations with public institutions - Petr Ondráček

Financial statements and reporting - Daniela Kynclová

Editor

Q and A Ltd.

Contact

ŠKODA AUTO a. s.

Třída Václava Klementa 869

293 60 Mladá Boleslav

Czech Republic

Tel.: + 420 326 811 111

Fax.: + 420 326 721 328

www.skoda-auto.com



Closing date of this Sustainable Development Report of Škoda Auto was 30 April, 2008. Used photographs - the archives of Škoda Auto a.s. and České Švýcarsko o.p.s. The report was produced with maximum respect to the environment and sustainable development in general. It has been printed on recycled paper. The Sustainable Development Report of Škoda Auto was produced in two language versions. Finishing work was carried out by employees of sheltered workshops of Škoda Auto.