SIMPLY CLEVER

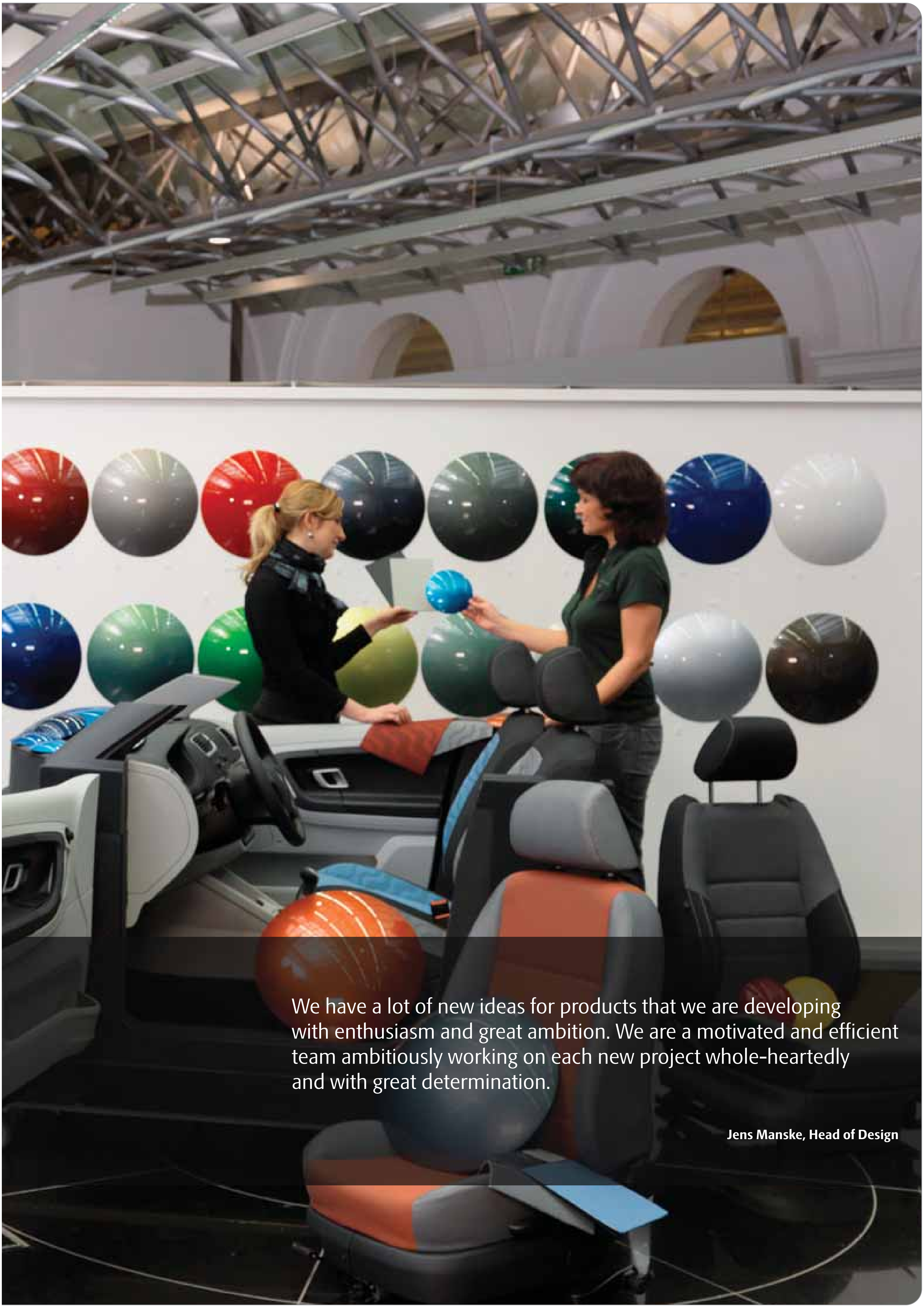
CARS AND PEOPLE

ŠkodaAuto
2007 ANNUAL REPORT

INVENTIVE SPIRIT

Jens Manske (Head of Design), Lada Dlabolová (interior designer) – posing in front of an interior model at the Škoda Auto Design Centre
Jana Bonková, Věra Vasická – matching colour and upholstery samples in the background

Long before a new model is designed, the technical development department begins to work on the first conceptual sketches. Upon compiling draft designs, the overall vehicle concept is ready for further elaboration.



We have a lot of new ideas for products that we are developing with enthusiasm and great ambition. We are a motivated and efficient team ambitiously working on each new project whole-heartedly and with great determination.

Jens Manske, Head of Design

ŠKODA SUPERB

CHANGE YOUR SENSE OF SPACE

ŠKODA OCTAVIA RS

EVERYDAY LIFE. TURBOCHARGED

ŠKODA ROOMSTER

FIND YOUR OWN ROOM

ŠKODA FABIA

LOVE AT FIRST DRIVE

Škoda stands for top quality, smart solutions, roominess, attractive designs and characteristic style.
Of course, the same applies for its flag-ship, the Superb. This makes the Superb the ideal limousine for people who know what they want, who are conscious about what they expect from products and brands, and who are, in this sense, very demanding.

NO COMPROMISE IN SPACE AND COMFORT

With its imposing interior space offer, its outstanding room in the rear passenger compartment, its smart and useful details and overall elegance, the Škoda Superb offers a consequential "big plus" in comfort, space and smart solutions. The car therefore brings a rewarding driving experience not only for the driver but also for the passengers.

At last a car which brings fun and practicality. A car that offers the best of both worlds: it is practical for shopping, and fun to drive to the favourite club.

PRACTICAL AND FUN

The Octavia RS differs from its competitors by the "two sides" of its personality: it offers an outstanding ratio of practicality and fun. Thanks to the large luggage compartment and powerful engines it appeals to the dual needs of its target customers: rational and emotional.

It is the positive attitude of Roomster owners towards life and its daily turnarounds that make them special. People driving a Roomster look forward to every day and all the new perspectives it will bring.

FOR NEW PERSPECTIVES IN LIFE

With the Roomster they have a car that ideally expresses their curiosity. By its roominess and flexibility it gives them the freedom to enjoy new experiences to the full – day in, day out.

Looking for a new car is a bit like looking for a partner. One can choose between various alternatives. Mr. Show-off, Ms. Boring, the cute one, the sunny girl etc. But in the end everybody is looking for Mr. or Ms. Right. This one and only person that fits perfectly to oneself.

YOUR PERFECT PARTNER

Of course, the new Fabia is a good-looking car with an appearance full of character. It is also a car with personal qualities and skills. The look and feel of its high-quality interior, its unexpected spaciousness and its attractive design provide the reassurance of having the partner that fits perfectly to you. The new Fabia Combi is ideal for young, active people. Combining substance, style and roominess, it is the perfect family partner.

CONTENTS

SELECTED DATA AND FINANCIAL FIGURES ACCORDING TO IFRS

		Škoda Auto Group			Škoda Auto (company)		
		2005	2006	2007	2005	2006	2007
Volume Data*							
Deliveries to Škoda customers	vehicles	492,111	549.667	630,032	492,111	549,667	630,032
Sales	vehicles	498,467	562,251	619,635	493,119	555,202	623,085
Sales of Škoda cars	vehicles	496,387	559,821	617,269	493,119	555,202	623,085
Production	vehicles	494,127	556,347	623,291	494,637	556,433	623,529
Production of Škoda cars	vehicles	494,127	556,347	622,811	494,637	556,433	623,529
Number of employees	persons	26,742	27,680	29,141	26,014	26,738	27,753
of which: temporary	persons	3,460	3,879	4,680	3,460	3,704	4,194
Profit and Loss Account							
Sales	CZK millions	187,382	203,659	221,967	177,822	189,816	211,026
Gross profit	CZK millions	23,644	28,023	36,493	18,635	22,107	30,161
	% of sales	12.6	13.8	16.4	10.5	11.6	14.3
Operating profit	CZK millions	10,860	14,602	19,784	10,004	13,776	19,021
	% of sales	5.8	7.2	8.9	5.6	7.3	9.0
Profit before income tax	CZK millions	10,073	14,198	19,860	9,440	13,560	19,446
Profit before income tax-to-sales ratio	% of sales	5.4	7.0	8.9	5.3	7.1	9.2
Profit after income tax**	CZK millions	7,893	11,062	15,982	7,363	10,882	15,892
Profit after income tax-to-sales ratio	% of sales	4.2	5.4	7.2	4.1	5.7	7.5
Balance Sheet/Financing							
Fixed assets	CZK millions	55,424	54,292	56,767	55,023	53,936	56,903
Current assets	CZK millions	34,331	50,920	59,014	28,956	43,499	48,658
of which: lendings	CZK millions	11,200	23,950	25,554	11,200	23,950	25,554
Equity**	CZK millions	46,757	58,321	67,034	46,483	58,007	66,532
Non-current liabilities	CZK millions	12,837	12,354	13,940	11,685	9,457	10,281
of which: nominal value of bonds	CZK millions	5,000	2,000	2,000	5,000	2,000	2,000
Current liabilities	CZK millions	30,161	34,537	34,807	25,811	29,971	28,748
of which: nominal value of bonds	CZK millions	0	3,000	0	0	3,000	0
Total assets	CZK millions	89,755	105,212	115,781	83,979	97,435	105,561
Cash flow from operating activities	CZK millions	23,550	27,420	28,454	21,421	24,203	28,146
Cash flow from investing activities	CZK millions	(11,566)	(11,090)	(13,785)	(11,299)	(10,910)	(13,913)
Cash flow from financing activities	CZK millions	(14,670)	(156)	(11,387)	(11,298)	68	(11,259)
R&D expenditure	CZK millions	5,414	4,701	5,459	5,414	4,701	5,459
Investment ratio	%	4.7	4.1	4.9	4.8	4.3	4.9
Net liquidity	CZK millions	4,911	21,157	27,403	6,070	19,352	25,154
Equity ratio	%	52.1	55.4	57.9	55.4	59.5	63.0
Equity-to-fixed assets ratio	%	84.4	107.4	118.1	84.5	107.5	116.9

* Volume figures are defined in the Glossary of Terms and Abbreviations, p. 169.
** The figure for the consolidated group includes minority shares.

LETTER FROM THE CHAIRMAN

Dear friends and well-wishers of the winged arrow brand,

Allow me to give you a synopsis of 2007 and briefly outline the outlook for future years.

In 2007, Škoda Auto Group posted the best performance results in Company history, and it did so in all areas of the business. Also, record numbers of vehicles produced and sold were reflected in an excellent earnings result. We also made progress in the field of social responsibility where, in particular, the adoption of the Codex of Corporate Governance brings a further shift in Škoda Auto's transparency and information openness. And the newly opened Na Karmeli Education Centre will contribute to the development of the region's educational profile.

Our attention in 2007 was focused on the Fabia model line. In the spring, we unveiled the new-generation Fabia to the public at the Geneva Motor Show. Shortly after launch, this vehicle received the prestigious automotive award Zlatý volant ("Golden Steering Wheel") for the best new small car of the year. Later in the year, the new-generation Fabia Combi (estate) model was introduced at the IAA Frankfurt Motor Show, and our customers will be able to buy it starting in 2008. I am convinced that both models have what it takes to be just as successful as their first-generation Fabia predecessors.

Our current product range spans the most important volume segments and preserves the unique, unmistakable style shared by all Škoda brand models. Roomy interiors with imaginative design solutions, excellent price/performance ratio while maintaining a high standard of quality – those are the characteristic features and attributes that our customers have come to expect from us as a matter of course.

In the years to come we will focus on further expanding and rejuvenating our product range with an emphasis on compliance with environmental standards and environmental friendliness. 2008 will be dedicated to the brand's flagship model – Škoda Superb. The new generation of this model will be premiered at the 2008 Geneva Motor Show.

In 2007 we took important steps necessary to expand production capacity and upgrade our manufacturing plants in the Czech Republic (i.e., the Mladá Boleslav, Kvasiny and Vrchlabí plants), as well as abroad. Vehicle production began at our plant in Kaluga, Russia and the Škoda Auto plant in India began assembling the new-generation Škoda Fabia. I am particularly pleased that we were able to complete our entry into the emerging Chinese market by commencing production of the Škoda Octavia under licence in Shanghai. In the year to come, we will focus above all on achieving planned production volumes and offering a product portfolio that is aligned with current market requirements.

Our position in all sales markets continued to stabilise. Alongside the domestic market, 2007 saw Škoda Auto maintain its prestigious position in Central Europe, among other markets. In Eastern Europe, one of the ways we grew sales was by leveraging our international assembly operations. Despite an overall recession in Western Europe, our strongest sales region, Škoda Auto managed to increase the number of vehicles sold there, and personally I consider this a major accomplishment. In the Asia/Pacific region, Škoda Auto endeavoured to take maximum advantage of the potential of these high-growth markets, particularly through local assembly plants. Late in the year we began selling cars in Australia, making it the 100th market in which the Škoda brand is actively represented.

The earnings posted in 2007 allowed us to take a number of major strategic decisions designed to ensure future stability and long-term sustainable development. Most importantly, these include investments in additional new products, reworking the existing product offer, and investments in expanding production capacities in the Czech Republic and abroad. These will contribute significantly to the Company's further development. We can certainly be proud that this development is fully financed by funds generated within the Group.

In the years to come, we expect to see more, and more aggressive, competition in all markets. We are aware of this situation. It is a big challenge for us and one we have, I believe, prepared ourselves for in a responsible fashion. The personal motivation of our employees and the quality of our products, services, processes, business partners and earnings remain a priority for us even in the growth phase and are fundamental to the achievement of our ambitious goals.

In conclusion, and on behalf of the entire Board of Directors, I would like to sincerely thank all those who contributed to the success of our brand for their efforts, dedication, and support.

Dipl.-Ing. Reinhard Jung
Chairman of the Board of Directors

2007 MILESTONES

January
- Škoda Octavia "Scout" variant enters series production
- New generation Škoda Fabia unveiled to international media
- Škoda Roomster "Scout" variant launched in world markets

February
- Annual press conference and release of financial performance figures for 2006
- Škoda Octavia "Scout" variant launched in world markets
- Škoda Superb presidential limousine donated to the National Technical Museum in Prague
- Vrchlabí plant wins first place in Volkswagen Excellence, a VW Group-wide quality award

March
- New-generation Škoda Fabia and prototype of the Super 2000 race car unveiled at Geneva Motor Show
- Production of Škoda Praktik begins at Kvasiny branch plant
- Gala opening of first exclusive model Škoda dealership in China
- Production of Škoda brand vehicles under licence begins in Shanghai, China

April
- President of the Czech Republic visits Škoda Auto plant in Kvasiny
- Half-millionth Škoda Octavia rolls off the assembly line
- Škoda Octavia presented at the Shanghai Motor Show

May
- For the fifteenth time, Škoda Auto is general sponsor of the World Ice Hockey Championships (Moscow)
- Škoda Auto is an official partner and provider of the official vehicle to the 14th meeting of Central European presidents
- Škoda Auto is general partner and provider of the official vehicle to the International Film Festival for Children and Youth in Zlín
- Through our Italian importer, Škoda brand becomes official partner of the Giro d'Italia cycling event for the first time
- Assembly of Škoda Roomster begins in Ukraine

June
- New-generation Škoda Fabia and Škoda Praktik launched in world markets
- Assembly of new-generation Škoda Fabia begins in Ukraine
- Škoda brand cars showcased at the Brno Motor Show
- Škoda brand cars produced in China go on sale in Shanghai

July
- Škoda Auto is general partner of the Tour de France
- Vrchlabí plant produces 1,200,000th vehicle since becoming part of the AZNP national enterprise in 1946
- Shares of Škoda Auto transferred to new 100% owner (more on page 8)

August

- Kvasiny branch plant produces half-millionth vehicle since commencing co-operation with Volkswagen Group in 1991
- 2007 Škoda Octavia Scout Experience expedition to Vladivostok starts from Moscow

September

- New-generation Škoda Fabia Combi, Combi Scout prototype, and Škoda GreenLine environmentally-friendly car line showcased at the Frankfurt Motor Show
- Gala opening of the Na Karmeli Education Centre in Mladá Boleslav

October

- Škoda Auto gets new Chairman of the Board of Directors (more on page 10)
- Australia becomes 100th world market for Škoda brand cars
- New-generation Škoda Fabia Combi enters production
- Plant in Kaluga, Russia commences assembly of Škoda brand vehicles
- Assembly of new-generation Škoda Fabia begins in India
- Volkswagen Group management decides to produce a new SUV model line at the Kvasiny plant

November

- New Chairman of the Škoda Auto Supervisory Board (more on page 14)
- New-generation Škoda Fabia Combi presented to international media in Split, Croatia
- Second-generation Škoda Superb undergoes first test drives in Death Valley, California

December

- Company achieves best sales and financial performance results in Škoda Auto Group history

List of awards won by Škoda brand in 2007

- Three Škoda brand models (Roomster, Fabia Combi and Octavia) win in their categories of Auto Trophy survey conducted by German publication Auto Zeitung
- Škoda named Best Car Maker of 2006 in survey conducted by British magazine Top Gear
- Škoda brand scores in British J. D. Power customer satisfaction survey, placing second
- Škoda Auto declared overall winner of "100 Top Corporations of the Czech Republic 2006" survey
- New-generation Škoda Fabia wins prestigious Zlatý volant (Golden Steering Wheel) award from German newspaper Bild Am Sonntag as best car in its class

ŠKODA AUTO GROUP PROFILE

Who We Are

Škoda Auto Group (the "Group") is one of the largest corporate groups in the Czech Republic. It consists of the parent company, ŠKODA AUTO a.s. (the "Company") and its fully consolidated subsidiaries: ŠkodaAuto Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Skoda Auto Polska S.A., Skoda Auto India Private Ltd. and the affiliate OOO VOLKSWAGEN RUS.

ŠKODA AUTO a.s.
based in Mladá Boleslav, Czech Republic

ŠkodaAuto Deutschland GmbH
based in Weiterstadt, Germany
Škoda Auto stake: 100%

ŠKODA AUTO Slovensko, s.r.o.
based in Bratislava, Slovakia
Škoda Auto stake: 100%

Skoda Auto Polska S.A.
based in Poznan, Poland
Škoda Auto stake: 51%

Skoda Auto India Private Ltd.
based in Aurangabad, India
Škoda Auto stake: 100%

OOO VOLKSWAGEN RUS
based in Kaluga, Russia
Škoda Auto stake: 30%

ŠKODA AUTO a.s.
The parent company, ŠKODA AUTO a.s., is a Czech company with an automotive manufacturing tradition that goes back over a hundred years. It is one of the oldest automotive brands in the world. The Company's principal businesses are the development, manufacture and sale of Škoda-brand automobiles, components, original parts and accessories and the provision of related repair and maintenance services. Effective 18 July 2007, sole ownership of the parent company, ŠKODA AUTO a.s., passed to Volkswagen International Finance N.V. with its seat in Amsterdam, Kingdom of the Netherlands, which purchased the stake from VOLKSWAGEN AG in conjunction with a planned reorganisation of the Volkswagen Group. Volkswagen International Finance N.V. is an indirect 100% subsidiary of VOLKSWAGEN AG.

ŠkodaAuto Deutschland GmbH
ŠkodaAuto Deutschland GmbH was established in 1991. It has been a subsidiary of ŠKODA AUTO a.s. since 1995. The company's principal businesses are the purchase and sale of vehicles, original parts and accessories.

ŠKODA AUTO Slovensko, s.r.o.
ŠKODA AUTO Slovensko, s.r.o. was formed in 1993 as a subsidiary of ŠKODA AUTO a.s. The company's principal businesses are the purchase and sale of vehicles, original parts and accessories.

Skoda Auto Polska S.A.
Skoda Auto Polska S.A. was formed in 1994 and it became a subsidiary of ŠKODA AUTO a.s. in the same year. The company's principal businesses are the purchase and sale of vehicles, original parts and accessories.

Skoda Auto India Private Ltd.
Skoda Auto India Private Ltd. was established in 1999 as subsidiary of ŠKODA AUTO a.s. and its vehicle assembly operations commenced in 2001. The company's principal businesses are the manufacture and sale of vehicles, components, original parts, accessories and other goods.

OOO VOLKSWAGEN RUS
This company was established in 2006 by VOLKSWAGEN AG, as sole owner, in accordance with an agreement entered into with the Russian Federation. ŠKODA AUTO a.s. took a stake in OOO Volkswagen Rus in late 2006 and the European Bank for Reconstruction and Development (EBRD) became the third shareholder in 2007. As of 31 December 2007, following these changes, ŠKODA AUTO's stake was 30.0%, VOLKSWAGEN AG held 50.1%, and the EBRD held a 19.9% stake (for more information, see Financial Section, pp. 107 and 148). The company's principal businesses are the purchase, manufacture and sale of vehicles, original parts and accessories.


Laurin & Klement factory (1910)


Assembly hall for the Octavia model (1996)


Power train plant (2001)

CKD centre (2006)

L&K Voiturette A (1905)

Škoda Superb (1938)

Škoda Favorit (1987)

Škoda Octavia (1996)

Whence We Come

Only a very small number of the world's automobile manufacturers can boast an unbroken tradition of motor vehicle production spanning a period of one hundred years. The road to today's prosperity began in 1895, when Václav Laurin and Václav Klement began manufacturing Slavia-brand bicycles. Just four years later, Laurin & Klement began manufacturing motorcycles.

1905
The first car, called the "Voiturette A", leaves the factory gates and thanks to its quality and attractive appearance soon gains a stable position in the emerging international automobile markets.

1907
Laurin & Klement set up a joint-stock company that goes on to export cars to markets the world over.

1925
The Laurin & Klement automobile factory merges with the Škoda machinery manufacturing company in Plzeň.

1930
ASAP ("Akciová Společnost pro Automobilový Průmysl" – the Automotive Industry Joint-stock Company) is founded and begins using assembly-line production methods, which are revolutionary for their time.

1939–1945
During the war years, the factory focuses on producing materials for the military. Just a few days before the war ends, the factory is bombed and sustains considerable damage. The enterprise is nationalised in the autumn of 1945.

1946
The enterprise's reconstruction takes place under a new name, AZNP ("Automobilové závody, národní podnik" – Automotive Plants, National Enterprise).

1964
The enterprise, now with production area of 800,000 square meters and over 13,000 people on the payroll, begins producing the popular car Š 1000 MB.

1987
Unveiling of the long-awaited Škoda Favorit, a car with a modern design that later helps to transform Škoda Auto.

1991
April 16 marks the beginning of a new chapter in the Company's history, when it is acquired by the strategic partner Volkswagen. Škoda becomes the Volkswagen Group's fourth brand.

1996
Production commences of another milestone car model for the Company – the Škoda Octavia.

Where We Stand

Since becoming a part of Volkswagen Group, Škoda Auto has more than tripled its production, significantly expanded its product portfolio, and reinforced the Škoda brand's image. Furthermore, it has built an extensive sales and service network and successfully established itself in international markets.

Škoda Auto Group

- operates in over 100 markets all over the world, in which it delivered 630,032 vehicles to customers in 2007; European Union countries account for 76.3% of sales (more on page 58),
- with total sales revenues of CZK 222 billion, is one of the largest corporate groups in the new European Union Member States measured by turnover (more on page 36),
- is a major employer; in 2007 it employed a total of 24,461 people, 902 of which were in foreign subsidiaries (more on page 62),
- in the Czech Republic, has taken top rankings in recent years in the "Largest Corporation", "Most Admired Corporation", and "Employer of the Year" categories of the CZECH TOP 100 ,
- generates high added shareholder value (more on page 43),
- is the Czech Republic's largest exporter, with a 7.5%* share in the country's exports,
- has major capital holdings in companies in both the Czech Republic and abroad,
- is a socially responsible company; in 2007, Škoda Auto declared adherence to the principles of the Czech Code of Corporate Governance (see page 20), is a long-term supporter of a number of public-benefit projects in the social area (more on page 68), and continually exhibits maximum care for the environment (more on page 70).

* estimate for 2007

STATUTORY AND SUPERVISORY BOARDS OF ŠKODA AUTO

Board of Directors

List of Members of the Board of Directors

Reinhard Jung
Chairman of the Board of Directors
(since 1 October 2007)

Holger Kintscher
Member, Commercial Affairs
(since 1 September 2005)

Horst Mühl
Member, Production and Logistics
(since 1 January 2005)

Fred Kappler
Member, Sales and Marketing
(since 1 January 2004)

Martin Jahn
Member, Human Resources Management
(since 23 February 2006)

Eckhard Scholz
Member, Technical Development
(since 1 April 2007)

Allocation of Powers and Responsibilities

The Chairman of the Board's Department is responsible for compliance with customers' requirements concerning product quality. Other tasks in this area include planning products, actively communicating with the media and professional circles, and organising meetings of senior management teams.

"Commercial Affairs" is responsible for financial planning, management, and effective use of financial resources. It is also tasked with securing information to meet the needs of the Company's management, and to secure timely and economically advantageous deliveries.

"Production and Logistics" is responsible for the manufacture of vehicles, original parts and accessories, power units and components thereof, as well as logistical activities and preparations for production.

"Sales and Marketing" is responsible for marketing the vehicles, original parts, and accessories produced by the Company.

"Human Resources Management" is responsible for providing human resources services, ensuring that all Company employees are optimally qualified, satisfied, and motivated. It also communicates on the Company's behalf with various interest groups.

"Technical Development" is responsible for new product development, styling, design, tests, caring for vehicles in production, and constantly improving the entire range of Škoda brand products. It bears the same responsibilities in relation to power units manufactured for other Volkswagen Group brands.

Members of the Board of Directors

Dipl.-Ing. Reinhard Jung (*1951)
A graduate of Lemgo Institute of Technology, where he majored in production technology, Mr. Jung joined VOLKSWAGEN AG in 1974. Until the end of 1984, he worked first as a project engineer and then as head of vehicle production launch in various international projects. In January 1985, he accepted the position of project manager at the Volkswagen Sarajevo plant. In 1986–88 he was the VOLKSWAGEN AG head of international production and was responsible for the Europe area. From January 1989 to June 1993 he headed up various departments in central planning in Wolfsburg and Salzgitter.

From July 1993 to December 1995 he was in charge of Volkswagen brand production management. From January 1996 to February 2002 he was head of the Volkswagen plant in Braunschweig. From March 2002 to July 2004 he was President of Volkswagen de Mexico, where he also served as member of the Board of Directors responsible for technical issues. From August 2004 to September 2007 he was the member of the Volkswagen Passenger Cars Board of Directors responsible for production and logistics. He has been Chairman of the Board of Directors of ŠKODA AUTO a.s. since October 2007.

Dipl.-Ing. Holger Kintscher (*1960)
A graduate of the Lippe Institute of Technology where he majored in Production Engineering, Mr. Kintscher joined VOLKSWAGEN AG in 1987, initially working in several positions in Education/Training and Finance. From January 1994 to March 1995 he was Deputy Head of Finance at Volkswagen's Poznan plant in Poland, where subsequently – from April 1995 to February 1997 – he served on the Board of Directors with responsibility for Commercial Affairs. From March 1997 to June 2000 he was in charge of the Development and Product Controlling area for Volkswagen's Commercial Vehicles brand in Hannover and from July 2000 to August 2005 he was its Chief Financial Officer. He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Commercial Affairs since September 2005.

Horst Mühl (*1947)
After serving an apprenticeship as a tooling technician, Mr. Mühl graduated in mechanical engineering from the Teutloff School in Braunschweig. He joined VOLKSWAGEN AG in 1969. In 1971–76 he worked in the production planning area. Starting in 1977 he worked as a department head in the body shop and at the same time he was appointed to the position of the Jetta I project manager. In 1979–82 he worked in the company TAS Sarajevo as head of technical preparation. From the year 1983 he was active at the Wolfsburg plant in various senior positions in production and logistics. In 1992–94 he was head of logistics at ŠKODA AUTO a.s. and, subsequently, starting in January 1995 he was head of production and logistics of the same brand. In 1996–2000 he served as Director of Volkswagen's power unit plant in Salzgitter. From January 2001 to September 2004 he held the position of Technical Vice President of FAW/VW in Changchun, China. He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Production and Logistics since January 2005.

Dipl.-Ökonom Fred Kappler (*1958)
A graduate of business sciences at the Braunschweig Technical University and the University of Hannover, Mr. Kappler joined VOLKSWAGEN AG in 1982, at first working in several positions in sales. In 1995–97 he served as North-western Europe Head of Sales. In 1997 he became First Vice President of FAW/VW in China. From June 2000 he was Volkswagen Head of Sales for the Federal Republic of Germany. He has been the member of the Board of Directors of ŠKODA AUTO a.s. with responsibility for Sales and Marketing since January 2004.

Ing. Martin Jahn (*1970)
A graduate of the University of Economics, Prague (major in foreign trade) and the DePaul University in Chicago (major in marketing and communications). In 1994–2004 he worked at CzechInvest, an agency of the Czech Government, as director of its U.S. Representation Office from 1996 and from 1999 as the agency's Director General. In August 2004 he was named Vice Chairman of the Government of the Czech Republic for the Economy. He is currently a member of the Board of Trustees of the University of Economics, Prague, as well as a member of the Research and Development Council, which is a specialised advisory body to the Government of the Czech Republic. In April 2007 he was elected Vice President of the Federation of Industry and Transport of the Czech Republic for the Economic Policy & Taxation area. In December 2007, he was elected President of the Automotive Industry Association. The President of the French Republic has made him a member of the Ordre National du Mérit. He has been with ŠKODA AUTO a.s. as the member of the Board of Directors responsible for Human Resources Management since February 2006.

Dr.-Ing. Eckhard Scholz (*1963)
A graduate of the Braunschweig Technical University, with a major in Energy and Process Technology, Dr. Scholz received his doctorate in 2005 from Martin Luther University in Halle-Wittenberge. Dr. Scholz joined VOLKSWAGEN AG in early 1991, where he first worked in passenger car testing. From April 1995 to October 1996 he worked at IAV Gifhorn, where he was responsible for managing the vehicle testing operation. In November 1996 he returned to VOLKSWAGEN AG to work as Head of the Vehicle Body Engineering Department. After three years, he accepted the position of Head of Passenger Car Equipment and in May 2002 he was appointed Head of the Car Body Development. In 2005 he was placed in charge of E2 product line development (convertibles and other luxury cars). He has been the member of the Board of Directors of ŠKODA AUTO a.s. responsible for Technical Development since 1 April 2007.

BRIGHT VISION

The recent years have seen Škoda rank among the top brands in the automotive industry in terms of sales expansion, and it is also the fastest-growing European car brand.

Martin Jahn
Member of the Board of Directors, Human Resources Management

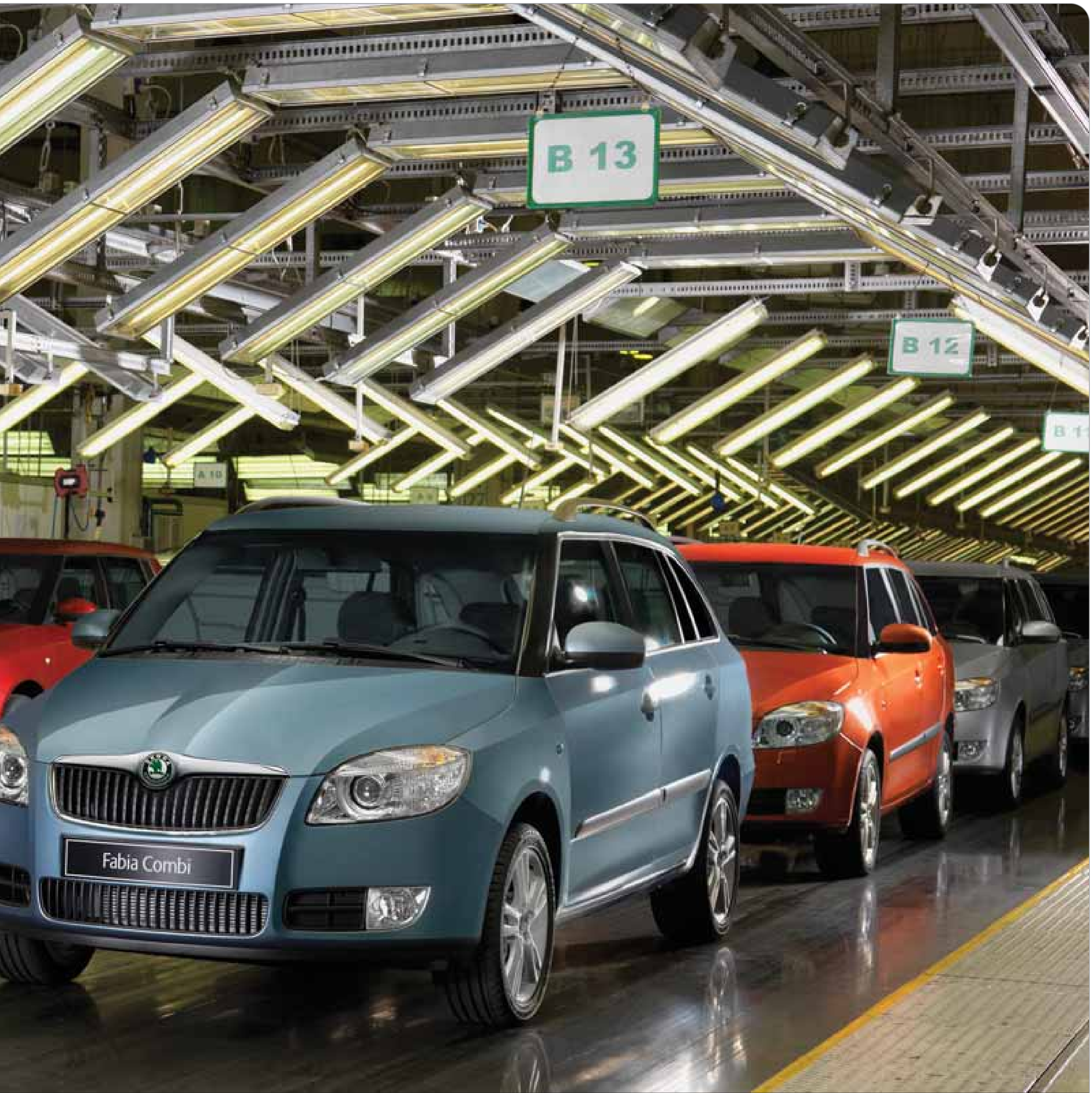
Fred Kappler
Member of the Board of Directors, Sales and Marketing

Holger Kintscher
Member of the Board of Directors, Commercial Affairs

Reinhard Jung
Chairman of the Board of Directors

Horst Mühl
Member of the Board of Directors, Production and Logistics

Eckhard Scholz
Member of the Board of Directors, Technical Development



In order to ensure that we are capable of maintaining the pace of development into the future, we set clear directions and specific objectives. In particular, we will focus on new products, new markets, and achieving maximum efficiency and effectiveness in all processes.
Through the personal motivation and dedication of all our employees, we intend to continue increasing the quality of our products and services, and thereby further build the reputation of the Škoda brand.

Reinhard Jung, Chairman of the Board of Directors

Supervisory Board

List of Members of the Supervisory Board

Hans Dieter Pötsch
Chairman (since 23 November 2007),
Member of the Board of Directors
of VOLKSWAGEN AG

Detlef Wittig
Member (since 1 November 2007),
VOLKSWAGEN AG General Corporate Proxy

Jochem Heizmann
Member (since 1 September 2007),
Member of the Board of Directors
of VOLKSWAGEN AG

Horst Neumann
Member (since 1 September 2007),
Member of the Board of Directors
of VOLKSWAGEN AG

Jaroslav Povšík
Member (since 16 April 1993),
Chairman of the Basic Organisation OS KOVO
ŠKODA AUTO a.s.

Jan Miller
Member (since 16 April 1993),
Secretary of the Basic Organisation OS KOVO
ŠKODA AUTO a.s.

Carl H. Hahn, Former Chairman of the Board of Directors of VOLKSWAGEN AG, is Chairman Emeritus of the Supervisory Board, an honourable position without the powers and responsibilities associated with Supervisory Board membership.

Members of the Supervisory Board

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (*1951)
A graduate of the Darmstadt Technical University with a degree in commercial engineering, Mr. Pötsch began his professional career at BMW, where he worked in 1979–87, ending up as Group Head of Controlling. Subsequently, he was appointed Director General in charge of Finance and Administration at Trumpf GmbH & Co in Ditzingen. In 1991–95 he was Chairman of the Board of Directors of Traub AG in Reichenbach. In July 1995 he joined Dürr AG in Stuttgart, where until the end of 2002 he served as Chairman of the Board of Directors. Since September 2003 he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Finance and Controlling. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since January 2004 and was appointed Chairman of the Supervisory Board in November 2007.

Dipl. Kfm. Detlef Wittig (*1942)
A business administration graduate of the University of Göttingen, starting in 1968 Mr. Wittig worked at VOLKSWAGEN AG in several marketing and sales planning positions. In 1975–77 he was active in Tokyo as the "Resident Representative of Volkswagen". In 1977 he was appointed Head of Export Sales Planning at VOLKSWAGEN AG and, three years later, he took over the leadership of European Sales. In 1983–87 he led the Product Marketing function at AUDI AG. In early 1987 he transferred to Volkswagen Canada, where his first position was Vice President Sales and Marketing; in 1988 he was appointed Chairman of the Board of Directors. In 1989–95 he was back in the management of VOLKSWAGEN AG as Head of Sales for the Volkswagen brand. He joined ŠKODA AUTO a.s. in 1995 as the member of the Board responsible for Sales and Marketing, and was subsequently appointed Vice Chairman of the Board and given responsibility for Finance and Controlling. In 2000 he was appointed to the Board of Directors of the Volkswagen brand, where he took responsibility for the Sales and Marketing portfolio, and, at the same time, he was made Chairman of the Supervisory Board of ŠKODA AUTO a.s. From October 2004 to August 2007 he was the Chairman of the Board of Directors of ŠKODA AUTO a.s. Effective from October 2007 he became General Corporate Proxy of VOLKSWAGEN AG with responsibility for Marketing and Sales. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since November 2007.

Prof. Dr. Jochem Heizmann (*1952)
A graduate of the Karlsruhe Technical University with a major in commercial engineering, Dr. Heizmann received his Dr. rer. pol. degree at the same institution in 1980. In 1982 he joined Audi NSU AUTO UNION AG in Ingolstadt, where he worked in a number of management positions, including head of the main technological development department and head of the main vehicle assembly department. He joined VOLKSWAGEN AG in October 1991, and took over leadership of the Power Unit Production central planning function in Wolfsburg. In August 1993 he was appointed Head of Production Planning for the Volkswagen brand. In this position he was responsible for planning, preparations for series production, and launch of production facilities for new vehicles and power units all over the world. In January 2000, he was appointed Technical Director and Management Spokesman of Volkswagen Sachsen GmbH and Volkswagen Sachsen Immobilienverwaltung GmbH, where he was also responsible for factories in Mosel, Zwickau and Chemnitz. From February 2001 to the end of January 2007, he was the member of the AUDI AG Board of Directors responsible for production. On 1 December 2006 he was appointed Professor Emeritus at the Mechanical Engineering Faculty of the Chemnitz Technical University. Since February 2007 he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Group Production. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since September 2007.

Dr. Horst Neumann (*1949)
A graduate in economics and social sciences of the Universities of Hamburg and Berlin, Dr. Neumann was awarded the Dr. rer. pol. degree in 1995 in Berlin. He commenced his career in 1973 as an assistant to the Berlin senator for economic affairs. In 1978–94 he was employed in the economics department at the Board of Directors of the IG Metall union in Frankfurt am Main, and promoted to Deputy Manager of the same department in 1983. In the same period, he was a member of the Supervisory Boards of Motorenwerke Mannheim AG (1981–86), Adam Opel AG (1985–95) and Rasselstein AG (1986–94). From 1994 to 2000 he was a member of the Board of Directors and Personnel Director at Rasselstein GmbH and Rasselstein Hoesch GmbH, subsidiaries of ThyssenKrupp Group in Andernach and Neuwied. In 2001 he was appointed to the Board of Directors with responsibility for human resources at ThyssenKrupp Elevator AG in Düsseldorf. In July 2002 he became the member of the AUDI AG Board of Directors responsible for Human Resources. Since December 2005, he has been the member of the VOLKSWAGEN AG Board of Directors responsible for Human Resources and since 2006 for Human Resources and Organisation. He has been a member of the ŠKODA AUTO a.s. Supervisory Board since September 2007.

Jaroslav Povšík (*1955)
A graduate of the Secondary Industrial School of Chemical Science in Most, Mr. Povšík joined ŠKODA AUTO a.s. in 1977, at first holding various positions in logistics and social services. Starting in 1989, while continuing to work in the plant, he was a member of enterprise committee of the OS KOVO ŠKODA AUTO a.s. trade union. In 1991–97 he served as Vice Chairman of the OS KOVO ŠKODA AUTO a.s. Basic Organisation and became Chairman of the same in January 1998. Since then he has been reaffirmed in this position twice – in 2002 and 2006. Starting in 1994 he was Chairman of the Enterprise Committee, today's Council of Chairmen. He is a member of the Assembly of the Confederation of Czech and Moravian Labor Unions, as well as serving on the worldwide council of Volkswagen Group trade union representatives. Since 2001 he has been Chairman of the Supervisory Board of ZPŠ (Škoda Health Insurance Company). He was elected to the ŠKODA AUTO a.s. Supervisory Board in April 1993.

Ing. Jan Miller (*1948)
A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, and post-graduate studies at the University of Economics, Prague, Faculty of Production Economics, Mr. Miller has been with ŠKODA AUTO a.s. since 1971. Past positions at the Company include areas such as development technology and construction, where he was a member of the co-ordination group for starting up new production facilities and head of construction of Škoda-brand service stations, as well as the commercial affairs section, where he headed up the production plan department. Since 1990 he has served as an economist with the OS KOVO ŠKODA AUTO a.s. Basic Organisation. He was Chairman of the Supervisory Board of ZPŠ (Škoda Health Insurance Company) and currently serves as Vice Chairman of the Board of Administration of ZPŠ. He was elected by employees to the ŠKODA AUTO a.s. Supervisory Board in April 1993.

Changes in the Statutory and Supervisory Bodies

Appointed to the Board of Directors:

Eckhard Scholz
Member since 1 April 2007

Reinhard Jung
Chairman since 1 October 2007

Resigned from the Board of Directors:

Harald Ludanek
Member from 1 April 2005 to 31 March 2007

Detlef Wittig
Chairman from 1 October 2004 to 30 September 2007

Appointed to the Supervisory Board:

Jochem Heizmann
Member since 1 September 2007

Horst Neumann
Member since 1 September 2007

Detlef Wittig
Member since 1 November 2007

Resigned from the Supervisory Board:

Wolfgang Bernhard
Vice Chairman from 10 February 2005
to 31 January 2007

Jan Uhlíř
Member from 11 July 1994 to 30 April 2007

Václav Petříček
Member from 1 February 1996 to 31 August 2007

Reinhard Jung
Member from 1 July 2005 to 31 August 2007

Vratislav Kulhánek
Chairman from 1 October 2004 to 31 October 2007

REPORT OF THE SUPERVISORY BOARD

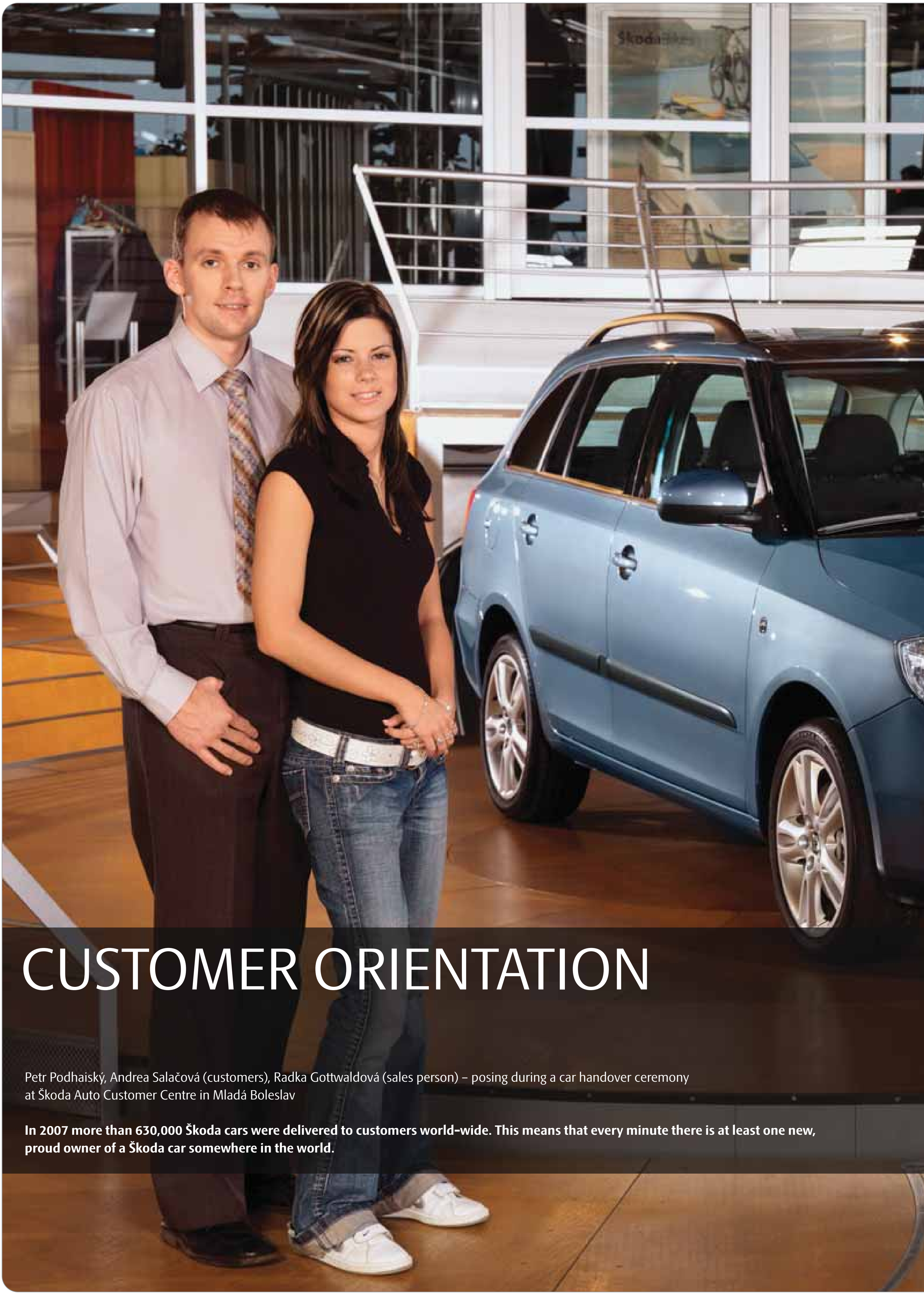
During the past fiscal year, the Supervisory Board was kept regularly and duly informed by the Board of Directors of the situation at ŠKODA AUTO a.s. (the "Company") and subsidiaries within the consolidated group (together, the "Group"), their financial performance, and their business policies.

Business processes for which the law or the Articles of Association require Supervisory Board approval or that the Supervisory Board be informed, as well as those of extraordinary importance, were discussed in detail at the meetings of the Supervisory Board. On the basis of written and oral reports by the Board of Directors, the Supervisory Board was able to continuously oversee the activities of the Company's management and that of the Group as a whole, thereby properly fulfilling the function entrusted to it by law.

Under a resolution dated 16 February 2007, VOLKSWAGEN AG, as the sole shareholder of ŠKODA AUTO a.s., approved the appointment of PricewaterhouseCoopers Audit, s.r.o., Prague, as the auditor of the Company's financial statements for the accounting period 2007.

The auditors issued an unqualified opinion on the annual financial statements of ŠKODA AUTO a.s. according to IFRS, the consolidated Group financial statements according to IFRS for the year ended 31 December 2007 and the Report on Relations for 2007. At its meeting held on 13 February 2008, the Supervisory Board discussed the financial results and evaluated positively the proposal of the Board of Directors regarding the allocation of profit of the annual financial statements of Škoda Auto according to IFRS. The Supervisory Board also reviewed the Report on Relations for 2007 and gave it an unqualified, positive evaluation. The Supervisory Board authorised the Board of Directors to submit the 2007 financial statements and the profit allocation proposal to the new sole shareholder, Volkswagen International Finance N.V.

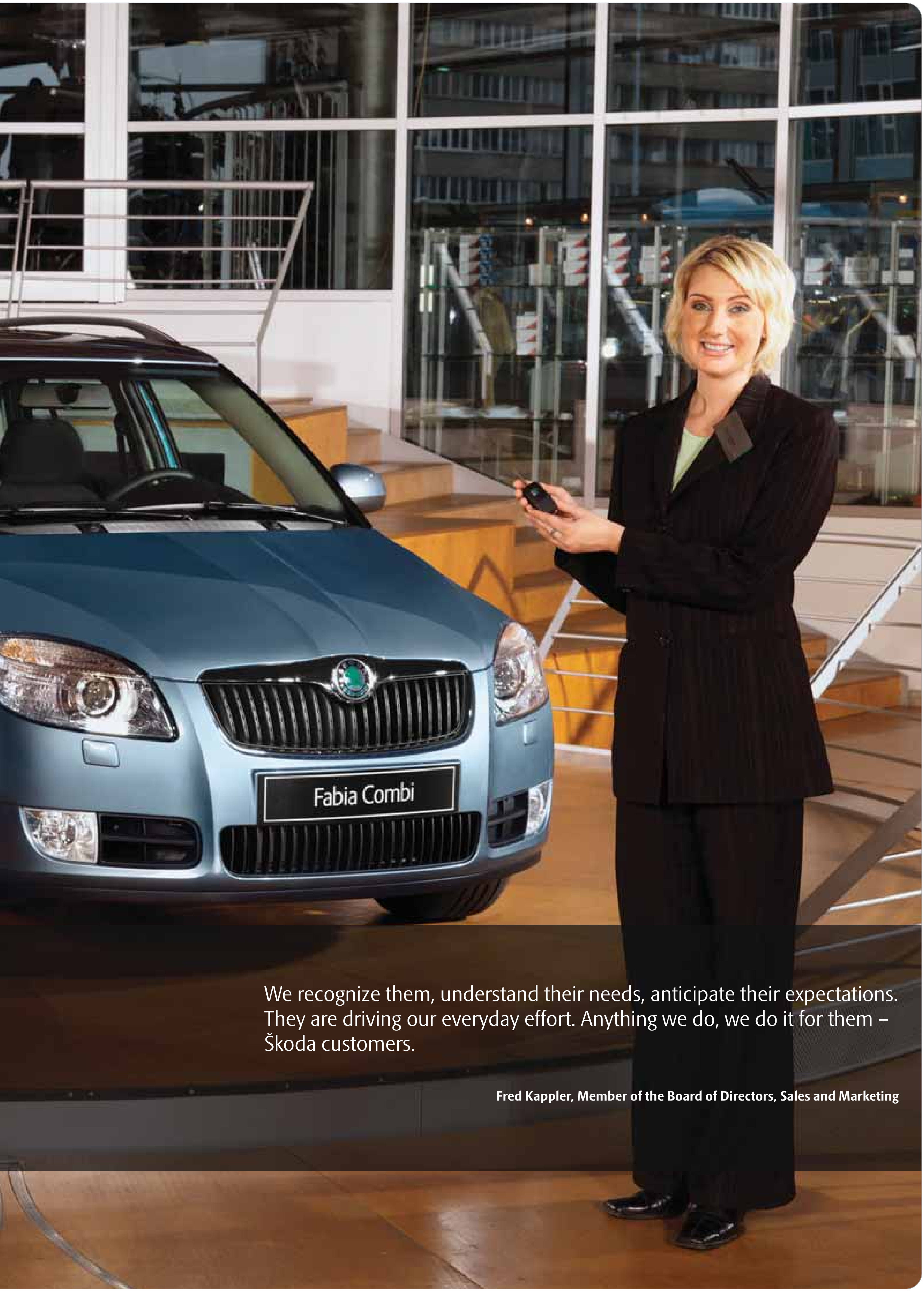
Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch
Chairman of the Supervisory Board



CUSTOMER ORIENTATION

Petr Podhaiský, Andrea Salačová (customers), Radka Gottwaldová (sales person) – posing during a car handover ceremony at Škoda Auto Customer Centre in Mladá Boleslav

In 2007 more than 630,000 Škoda cars were delivered to customers world-wide. This means that every minute there is at least one new, proud owner of a Škoda car somewhere in the world.



We recognize them, understand their needs, anticipate their expectations. They are driving our everyday effort. Anything we do, we do it for them – Škoda customers.

Fred Kappler, Member of the Board of Directors, Sales and Marketing

ŠKODA AUTO CORPORATE GOVERNANCE

Declaration of Compliance with Codex of Corporate Governance Recommendations

Škoda Auto is aware of its exclusive position in the Czech business environment and its ever growing credibility within the Volkswagen Group, as well as among competing automotive manufacturers. For this reason, it is fundamentally important for us to be perceived – by our employees, business partners, all our customers, and the public at large – as a successful and, at the same time, transparent and informationally open company. We are aware of the tradition and reputation we have built up over many years; we perceive it as a key asset in the further successful development of our business activities.

In view of these facts, Škoda Auto adheres to the relevant recommendations and rules of the Codex of Corporate Governance based on OECD principles (the "Codex") in the form in which it was updated in 2004, under the patronage of the Securities Commission. The Company's aim is to continually improve internal processes and procedures and, in accordance with the Codex, to further promote transparency and ethical business practices in the Czech Republic.

Degree of Compliance with Codex of Corporate Governance Recommendations

In line with best practices utilised in the Volkswagen Group, the bulk of the Company's internal governance processes have long been in accordance with the relevant Codex rules. In view of the Company's shareholder structure (one shareholder – Volkswagen International Finance N.V. based in Amsterdam), the Group organisation structure (see the VOLKSWAGEN AG Annual Report) and the fact that the Company's shares are not listed, certain Codex recommendations are not relevant, while others are dealt with – commensurately and in the interests of achieving effectiveness and leveraging synergies – at the Group level.

Based on analyses conducted, 2007 saw several further changes made, all focused on developing and improving corporate governance standards at Škoda Auto. A specific example is the drafting and adoption of a Behaviour Code that stipulates principles of behaviour for Škoda Auto employees, based on application of Company values and universally recognised ethical standards.

Company Organisation

The Board of Directors is the Company's statutory body, runs the Company's operations and acts in its name. It is responsible for the Company's long-term strategic direction, setting business and risk management policies, and managing the Company's day-to-day business operations. The Board's powers and responsibilities are defined by the Articles of Association, the Company's internal directives, and Czech Republic legislation.

Pursuant to the Company's Articles of Association, the Board of Directors has six members, all of whom play executive roles in the Company. Members of the Board are appointed by the sole shareholder for terms of three years, and multiple terms are possible. All Board members have the necessary personal and professional qualifications as well as the requisite practical experience for carrying out the duties of their office (see professional biographies on pages 10–11). They bear responsibility for their actions to the extent stipulated by Czech Republic legislation. The Board of Directors meets once per week.

To ensure its effective functioning, the Board of Directors delegates relevant powers and responsibilities to levels of management subordinate to it – the senior executives (see the Company's organisation chart on page 174).

Senior executives, as holders of key positions in the Company structure, have power and responsibility for planning, managing and overseeing the Company's operations. Due to space constraints, the names and professional biographies of the individual senior executives, as well as descriptions of the key positions they hold in the Company, are published on the Company website (www.skoda-auto.cz). In 2007, there were a total of 41 senior executives.

The Supervisory Board oversees the Company's operations and the activities of the Board of Directors to ensure that they are compliant with applicable legislation, the corporate governance principles, the Articles of Association, the Supervisory Board's Rules of Order, and Volkswagen Group internal directives. The Supervisory Board ensures that appropriate systems are in place to protect the Company's interests and the entitlements of all stakeholders, as well as to ensure proper presentation of financial information. In accordance with the law, the Supervisory Board of Škoda Auto reviews the financial statements and Report on Relations, expresses an opinion on the selection of the auditor for the given accounting period, oversees financial reporting and evaluates all financial transactions that have serious consequences for Škoda Auto.

The Supervisory Board consists of six members, four of which are appointed by the sole shareholder and two of which are elected by Company employees in accordance with the law. Supervisory Board members serve four-year terms, and multiple terms are possible. Three regular Supervisory Board meetings are held per year.

The Company is not fully in compliance with Code recommendations pursuant to Chapter VI-E-1 – in particular item 5 of the commentary, according to which the Board of Directors and/or Supervisory Board should have a sufficient number of members that are not employed by the Company and do not have close economic, family or other ties to the Company or its management.

In this respect, the functional independence of the Škoda Auto Supervisory Board and the breadth of the Company's strategic development are ensured by the structure of the Volkswagen Group's organisation and the requisite number of independent members in the Supervisory Board of VOLKSWAGEN AG (see the VOLKSWAGEN AG Annual Report).

Shareholder Relations

The Company exercises all due care to ensure compliance with all statutory requirements to the full degree necessary with regard to two facts: first, the Company's shares are not listed and, second, all of the Company's shares are owned by a single shareholder – Volkswagen International Finance N.V.

Škoda Auto complies with statutory rules for extraordinary transactions (i.e. for transactions that, in terms of subject matter or value, exceed the scope of ordinary, day-to-day business). Within the Company, rules govern relations between Company bodies in preparing, approving and implementing measures and steps of extraordinary or fundamental importance such as financial and human resources planning, planning of production and sales, Company participation as a partner or shareholder in third party business ventures, disposition of assets beyond the level of day-to-day business, filling key positions in Company management, etc.

Information Openness and Transparency

The Company strictly adheres to and complies with all laws and regulation in the Czech Republic legal system as well as the principles of the Code of Corporate Governance set forth in Chapter V, and regularly releases to the public all material information on its business, financial and operating results, shareholder structure and other significant events. All information is prepared and released in accordance with standards for accounting and reporting of financial and non-financial information. In keeping with our strategy of openness, the Company's disclosures exceed statutory requirements in many areas.

The Company regularly publishes annual and semi-annual reports. The Annual Report contains the audited financial statements and presents a detailed picture of the Company's operations activity and financial situation. The Annual Report also includes the Report on Relations.

In order to prevent any potential conflicts of interest, all members of the Board of Directors and Supervisory Board and all senior executives of the Company are required by internal directives to notify the Company in writing of any and all material interest they may have in transactions that benefit third parties and to refrain from exercising direct influence over decision-making in respect of such transactions. In 2007, there were no facts on record concerning any of the relevant groups of employees that could result in a conflict of interest.

Committees Formed by the Company's Statutory and Supervisory Boards

Committees Formed by the Supervisory Board
The Company is not fully in compliance with Code recommendations pursuant to Chapter VI-E-2 – in particular, item 18 of the commentary, according to which the Company should set up three separate committees for audit, remuneration and appointments. As the Company is owned by a single shareholder, and in order to increase effectiveness and leverage synergies, the remits of these committees are dealt with at the VW Group level. Remuneration and appointments are dealt with by the Personnel Issues Committee of the VOLKSWAGEN AG Board of Directors in co-operation with the appropriate committees of the VOLKSWAGEN AG Supervisory Board (see the VOLKSWAGEN AG Annual Report). Activities customarily performed by the audit committee fall within the remit of the independent Internal Review unit of VOLKSWAGEN AG. This unit, together with the Audit Committee of the VOLKSWAGEN AG Supervisory Board, oversees the Škoda Auto Internal Audit department and the Company's system of internal controls.

Committees Formed by the Board of Directors
In order to support the Board of Directors' activities, meet its internal needs and ensure fulfilment of its responsibilities, the Company has formed the following committees and panels that report to the Board of Directors:

- Product Strategy Committee
- Strategic Planning and Integration Team
- Quality Committee
- Business Meeting and Financial Review
- Liquidity Management Committee
- Inventory Management Committee
- Investment Committee
- Production Programme Planning Committee
- Personnel Team
- Strategic Commission for the Environment
- Corporate Culture Team
- Sponsorship Management Circle
- Property Management Committee

These committees are advisory bodies that the Board of Directors forms by resolution. Their purpose is to initiate, prepare and submit recommendations on specialised issues. Their scope of authority and composition are governed by their respective Rules of Procedure.

Company Policy Toward Stakeholders

Škoda Auto is one of the largest corporations in the Czech Republic. Its interests are aligned with the sustained development of the society of which it is a part, and at the same time it fully recognises its responsibility for the stability of this business environment. Developing the Company's good reputation, credibility and reliability toward business partners, employees and other stakeholders is a key focus area. Škoda Auto openly declares its adherence to values of enterprise social responsibility and in accordance with these principles we adapt our operations to the needs of our surroundings.

ŠKODA AUTO SOCIAL RESPONSIBILITY

With regard for our position in the Czech Republic economy and numerous international ventures, we at Škoda Auto are aware of our responsibility toward the general public and our employees. At the same time, we consider responsible behaviour toward the public and our employees to be an integral part of our corporate strategy.

In 2007, the Company declared adherence to the Code of Corporate Governance based on OECD principles, thereby declaring its openness toward the outside environment and the transparency of its internal processes and its relationship with its principal shareholder (more on page 20).

Škoda Auto has a long-term programme in which it dedicates extraordinary efforts to minimising the negative environmental impact of its operations. This relates not only to the Company's own manufacturing and sales operations, including emphasis on recycling and conservation of resources, but also extends to preferring suppliers that meet the most demanding environmental standards – ISO 14000. New products are developed with the aim of limiting CO_2 emissions. By using alternative sources of energy (e.g., combustion of biomass), the Company helps to mitigate climate change (more on page 70).

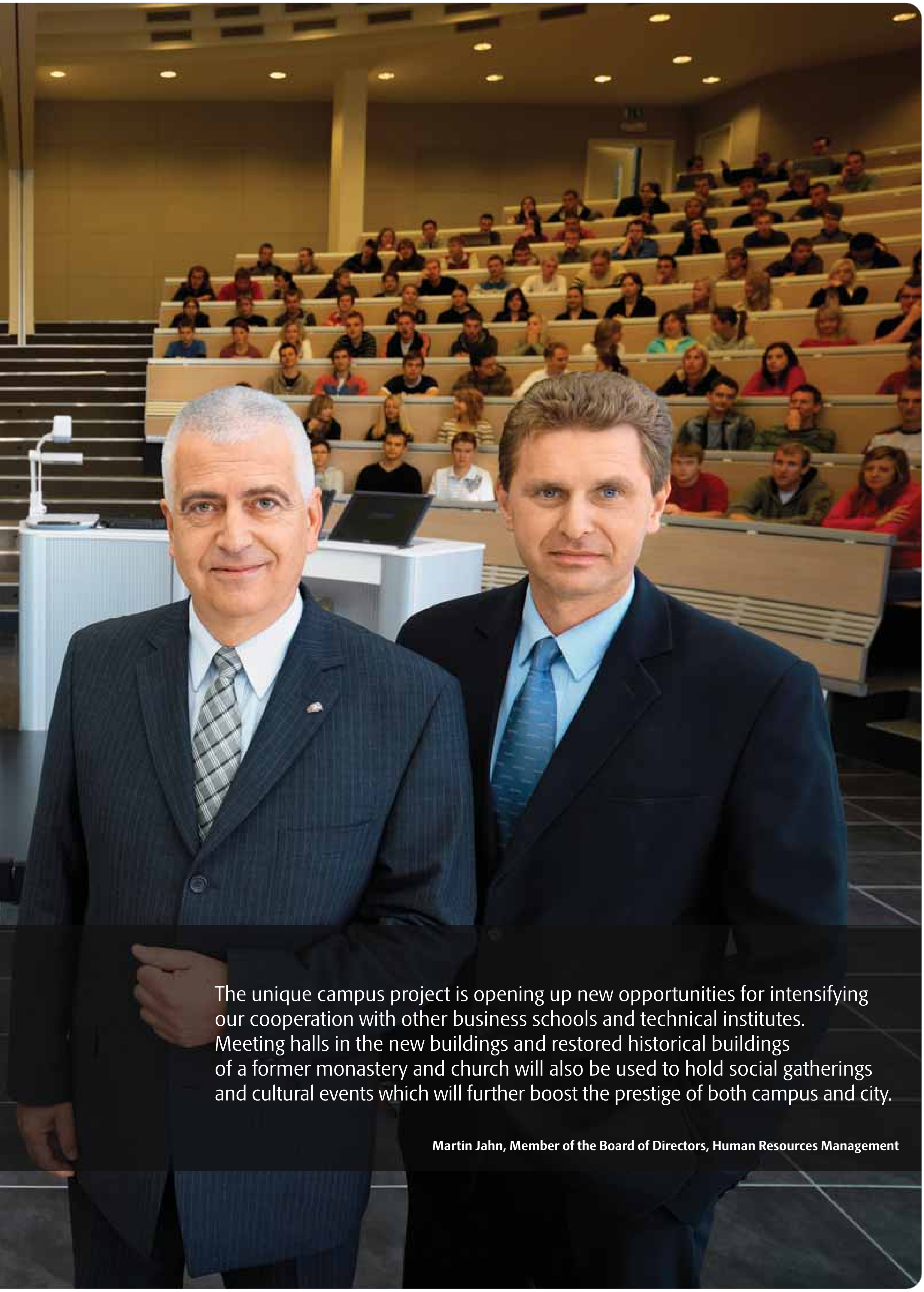
The Company also pays extraordinary attention to its employees, both in issues of occupational safety and health and with regard for the development of their professional qualifications and off-the-job needs. The Company takes the initiative in supporting equal opportunity with regard for the ageing population and ethnic composition. The Company also operates protected workshops in which handicapped persons find permanent and temporary employment. For a long time now the Company has exceeded employee training standards by operating its own Secondary Vocational School, as well as a Company university – the only one of its kind in the Czech Republic (more on page 62).

The Company implements its sponsorship programme at the local and regional levels – i.e., directly in the areas where we operate – as well as at the international level. In cooperation with major foundations and charity organisations, we support a number of social, cultural and humanitarian projects. Our sports sponsorship activities also include support for the handicapped (more on page 68).

STEP AHEAD

Vladimír Hamáček, Vice Chancellor for Strategy, Development and International Relations
and Petr Šulc, Vice Chancellor for Academic Affairs, Škoda Auto University – posing in the auditorium of the Na Karmeli Education Centre

Qualified and motivated employees constitute a substantial competitive advantage in today's automotive industry. The new Na Karmeli Education Centre is the largest company-owned educational institution in the Czech Republic – it is designed for up to 800 university students and can also provide further education to 3,400 employees a year.



The unique campus project is opening up new opportunities for intensifying our cooperation with other business schools and technical institutes. Meeting halls in the new buildings and restored historical buildings of a former monastery and church will also be used to hold social gatherings and cultural events which will further boost the prestige of both campus and city.

Martin Jahn, Member of the Board of Directors, Human Resources Management

REPORT ON THE OPERATIONS OF ŠKODA AUTO GROUP AND ŠKODA AUTO A.S.

MACROECONOMIC AND MARKET DEVELOPMENTS

In 2007, the world economy grew at a slower rate than in the previous year, due in particular to a slowdown in the U.S. economy. In the meantime, Asian economies – China and India especially – contributed more and more to global economic growth. The economies of the European Union put in solid growth, but at a lower level than last year.

Rising oil prices and ongoing political instability in the Near East led in 2007 to higher prices of synthetics. Higher consumption of raw materials in 2007 caused steel prices to rise further.

Development of the Economy

Czech Republic
In 2007, the Czech economy maintained its record pace of Gross Domestic Product (GDP) growth. For the third year in a row, year-on-year growth in real GDP was approximately 6%. The principal factors driving the growth were household consumption and gross capital formation, each of which contributed equally to the pace of economic growth. The influence of foreign trade and government consumption on economic growth was slight by comparison.

Consumer prices rose in December 2007 by 5.4% compared to December of the previous year. The average year-on-year inflation rate in December 2007 was 2.8%. The Czech National Bank reacted to increasing inflationary pressures by increasing its two-week repo rate four times during the year; the last increase occurred in November 2007, to 3.5%.

The balance of foreign trade ended up with a record surplus of CZK 86 billion (2006: CZK 40 billion). The Czech Republic's biggest trading partners were EU countries, which accounted for over three quarters of export/import turnover. The biggest trading partner of all was Germany.

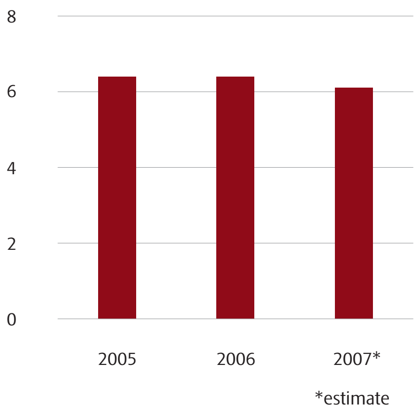
Škoda Auto was the country's largest exporter; our share in overall Czech Republic exports reached 7.5%. The strong economy was evident in the labour market as well, as more job openings were offered, leading to a decline in the average unemployment to 6.6% (2006: 8.1%). During the year, the Czech currency (the Czech Koruna, CZK) set several new records against both the Euro and the U.S. dollar. By year end the Koruna had strengthened against the Euro up to CZK 26.62, while the U.S. Dollar was selling for CZK 18.08.

Central Europe
The high rate of economic expansion in countries of the Central European region was sustained – economic growth rates in the region exceeded those in the Eurozone. GDP growth was the fastest in Slovakia and the slowest was in Hungary (1.6%).

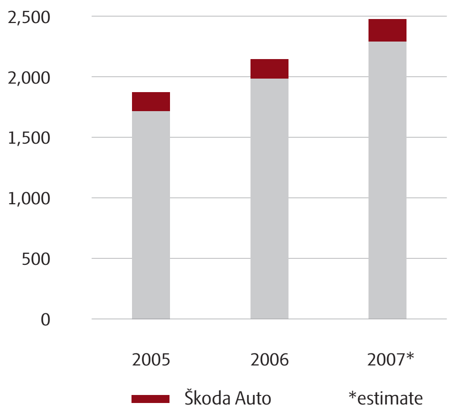
Slovakia's GDP grew 9.3% in 2007 (2006: 8.3%), driven by high exports, investments, and household consumption. Inflation remained relatively high, though it fell from 4.5% in 2006 to 2.7% in December 2007. The Slovak central bank cut its base interest rate twice during year, the last time being in April 2007, by a quarter point to 4.25%. The easing of monetary policy was made possible by the more favourable development in inflation. Conditions in the labour market also improved; unemployment fell by 1.2 percentage points to 8.2%.

Another strong economy in 2007 was Poland with growth of 6.5%. In the first quarter, the Polish economy grew faster (7.4%) than at any time in the past ten years. The main drivers were household consumption and fixed investments; the economy was also stimulated by strong inflows of foreign capital, especially from the USA and Japan. As the economy grew, unemployment fell in year-on-year terms, but remained at a relatively high level of 11.4%. The average inflation rate in December 2007 stood at 2.3%. The Polish central bank raised its base interest rate to 4.5% in the second quarter of 2007, following a year of stability.

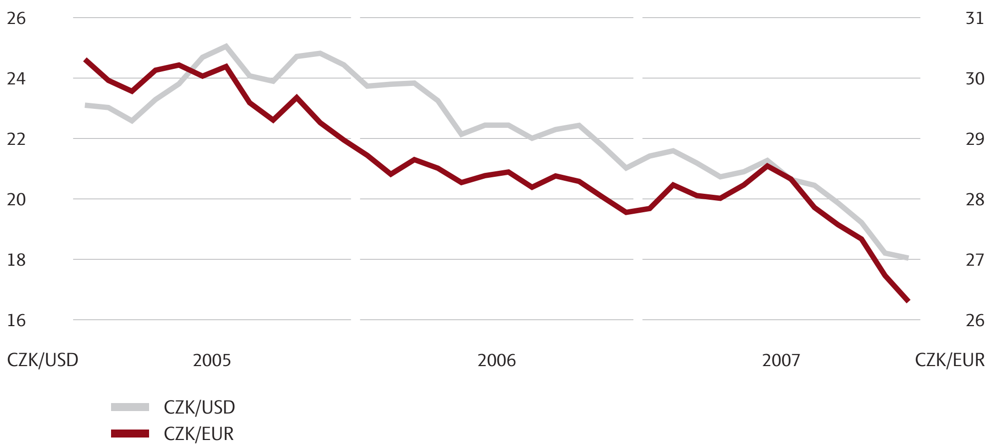
Czech GDP Growth,
2005–2007 (%)



Czech Exports (CZK billion)



CZK/EUR and CZK/USD Exchange Rates



Eastern Europe
The countries of the Eastern European region also maintained a high pace of economic expansion, exceeding the growth rate in the Eurozone. The fastest growing economy in the region was Latvia (+11.1%).

Russia's GDP grew by over 7.5% in 2007. Favourable investment conditions brought a major jump in investments (21.5%). Despite relatively high inflation of over 9%, real wages grew 16.5%. Import-export indicators were also up. Export increased by over 11% and import was up by over 37%. The Russian automotive industry developed at an intense pace – compared to the same period of 2006, production of passenger cars grew by over 25%.

Western Europe
In 2007, growth of the Eurozone (EU-12) economy slowed slightly to 2.5% (2006: 2.8%). In the second half of 2007, the performance of the Eurozone economy, which to a large extent is driven by export, was negatively impacted by the strong Euro. By the year end the unemployment rate had fallen to 6.9%. The inflation rate for the year 2007 was 2.0%. The biggest driver of EU-12 growth was Germany.

The German economy grew 3.6% in the first quarter of 2007. Higher investment and export offset household consumption which fell slightly following a VAT increase at the beginning of the year. The dynamism of the first quarter was not repeated in later quarters, however. GDP grew by 2.5% in 2007. The rate of unemployment in December 2007 fell to 6.5% from 8.1% in 2006. Consumer prices increased by 2.1% year-on-year in December, due mainly to rising oil prices.

Asia
China and India reaffirmed their role as Asian tigers. According to IMF estimates, China was the biggest contributor to world economic growth in 2007 – the first time it has achieved this position. The Chinese economy grew by 11.5%. Industrial production was up 18.5%, and investments in fixed capital also grew (by 25.9%). Exports also grew at a fast pace (21.3%) while imports increased by 19.5%. The inflation rate rose by 4.5%, surpassing the central bank's goal of 3%.

Economic development in India was characterised principally by growth, at a pace of 8.9% for the year. Inflation was a problem; by year end it had risen to 6.2%, driven by rising prices of staple foods and oil. The Indian economy is in a boom phase that began in 2003. On its road to prosperity, India will have to solve a number of major structural problems such as poverty, over-population and illiteracy.

* The 2007 figures given in the text are estimates based on data available as of the Annual Report closing date.

Development of Automobile Markets

Global passenger car sales increased in 2007 by 4.2% to 58.3 million units. Above average year-on-year growth was seen in South American, Central and Eastern European markets, and Asian markets. Worldwide automobile production grew by 5.6% in the year in question, to a total of 71.9 million units, 60.4 million of which were passenger cars (+5.5%).

Czech Republic
After several years of stagnation, 2007 saw 6.9% growth in the number of new passenger cars registered in the Czech Republic. The overall positive economic development was also reflected in sales of passenger cars, with unit sales totalling 133 thousand. In 2007 there was further dynamic growth in demand for light commercial vehicles, with a total of 62 thousand registrations (i.e. up 25.4% from 2006). The passenger car market in 2007 continued to be influenced by growth in used car imports, which is related, among other factors, to a change in legislation that took place in July 2006. The total number of used vehicles registered during the year was 213 thousand (i.e. up 16.2% from 2006).

Central Europe
2007 brought a recovery in most markets of Central Europe. In total, 807 thousand vehicles were sold here, which is up 8.5% from 2006. The largest Central European market, Poland, saw a major increase in passenger car sales, following a relatively long period of declines and stagnation. This growth was due to increased interest on the part of corporations in renewing their vehicle fleets. Overall, the market in Poland was up by 22.7% over the previous year, to 293 thousand automobiles.

Development of the market for new vehicles in Slovakia was characterized by intensifying competition, with aggressive pricing. The Slovak Koruna's strength against other currencies, the Euro in particular, put further downward pressure on prices. Overall, the Slovak market grew to 59.7 thousand units, i.e. 1.0%.

The Croatian market was also up (+4.6%). In Hungary, on the other hand, demand for new passenger cars fell substantially – by 6.0% to a total of 177 thousand units.

Eastern Europe
The new passenger car markets of Eastern Europe continued to show rapid growth in 2007. In total, 3.4 million vehicles were sold in the region, for year-on-year growth of 36%. The greatest year-on-year increases were seen in Russia (total of 2.3 million units, growth of 37.5%), Romania (312 thousand units, +23.3%), and Ukraine (542 thousand units, +46.2%). Very substantial incremental growth figures were also posted in Lithuania (total market 21 thousand vehicles, +35.8% year-on-year), Latvia (32 thousand, +23.8%), Estonia (31 thousand, +21.1%), Bosnia (12 thousand, +26.6%) and Bulgaria (30 thousand, +19.3%).

Western Europe
In Western Europe, the total number of newly registered passenger cars was flat at 14.9 million units (+0.2%), virtually unchanged from 2006. Rising fuel prices contributed to another increase in the share of vehicles with diesel engines, up to 53.3% (2006: 51.3%). The Italian market expanded thanks to the introduction of a bonus for scrapping older vehicles, reaching a substantial growth rate of 6.7%. Other major markets were mixed – the UK, France, Denmark and Sweden saw moderate growth in demand, while Germany, Spain, Belgium and Austria lost ground compared to the previous year. Most significantly, the German passenger car market contracted substantially – by 9.2% to 3.1 million units. Although the light commercial vehicle segment and the company car segment did well, there was a noticeable decline in private customer demand. The main cause of this decline was a VAT increase and the related wave of early buying in the last months of 2006.

Asia
In this region, 2007 saw continued rapid growth in the number of newly registered passenger cars, particularly in China. With demand up by 927 thousand units to a total of 5.1 million passenger cars sold (+22.3% from 2006), China became the second biggest car market in the world, after the USA. The Indian market grew steeply as well, confirming the trend established there in recent years. Compared to 2006, sales of new passenger cars rose by 16% to 1.2 million units.

RISK MANAGEMENT SYSTEM

Škoda Auto Group operates in various countries of the world, where it is confronted with a wide range of risks, which could potentially have a negative impact on our financial performance. On the other hand, changes in the economic and legal environment can also lead to opportunities that the Group endeavours to leverage toward reinforcing and further improving our competitive position.

Risk Management Organisation

The risk management structure at Škoda Auto Group is based on unified risk management principles within the Volkswagen Group. The entire risk management remit falls within the central controlling function in co-ordination with the internal audit function. Unified implementation of the risk management system is ensured by the "Risk Management" organisational directive with the utilisation of standardised procedures. Compliance with the approved rules is enforced, among other things, by regular internal reviews performed by the managements of individual companies in the Group.

The risk monitoring system is based on decentralised accountability. Individual units within the Group are assigned specific areas of risk that they monitor. These risks are identified, documented and quantified by the departments responsible for risk management.

A basic prerequisite for effective risk management is the provision of timely and relevant information to decision-makers. Management regularly receives a report detailing the most significant risks and containing an up-to-date summary of the risks to which individual Group companies are exposed. In accordance with Group strategic objectives, measures are proposed and subsequently implemented to eliminate or mitigate these risks. The results of the measures are regularly reviewed and evaluated.

The system itself is also subject to regular review of its effectiveness and adequacy and is integrated into the planning, controlling and business processes system.

Description of Individual Risk Categories and Their Management

The most significant risks facing the Group are financial and sector-specific risks, risks ensuing from changes in larger economic and political frameworks, changes in legislation, operational risks, and other risks such as changes in quality and risks relating to human resources.

Financial Risk
Developments in financial markets are considered the most significant risk factor. Movements in exchange rates, in particular, represent a major risk as the Group generates a substantial portion of its cash flows in foreign currencies. For this reason, fluctuation of exchange rates can pose a considerable risk for the Group's future economic performance. To manage currency risk, the Group makes use of standard derivative hedging instruments.

In similar fashion to exchange rate risks, the Company actively manages the potential negative impact of changes in the interest rates we use within our business activities. Exposure to interest rate movements occurs in medium and long-term obligations, and in particular bonds outstanding. Cash flow risk in this area is hedged using interest rate swaps.

Other risks threatening the Group's performance are related to ongoing price growth in international commodities markets. Management of commodity risks is coordinated at the Volkswagen Group level, as well as through long-term contracts with key suppliers.

Credit risk is dealt with by the Group using hedging instruments, both preventive (e.g. reserving the right of ownership, payment in advance, documentary credit, etc.) and subsequent (e.g. recognition of obligation, instalment calendar, promissory note).

Risks that could occur as a result of fluctuation in payment streams (liquidity risks) are addressed by the Group using standard financial market instruments. The aggregate volume of credit lines taken out with banks is managed to cover potential liquidity shortfalls over a period determined by internal rules.

More detailed information on how the Group manages and quantifies financial risk is set forth in the Financial Section (Notes to the Consolidated Financial Statements 2007, in particular Chapter 3, "Financial risk management").

Sector-specific Risk
Competition in the automotive sector continues to grow and intensify, and sales support initiatives must be bolstered in response. This situation is exacerbated by market risk. In order to eliminate sector-specific risk to the maximum extent possible, the Group regularly analyses the behaviour of both customers and the competition.

Co-operation between car manufacturers and their suppliers is close and economically advantageous. At the same time, it also poses certain risks that can disturb the production process. These risks include, e.g. late deliveries, failure to deliver and quality defects. Other risks ensue from increased competition among suppliers. For this reason, the Group works with multiple suppliers when sourcing parts for assembly. In addition, preventive measures are taken within the risk management system to the address the possibility of supplier insolvency.

Economic, Political and Legislative Risk
In view of the character of the Group's business, our financial positions are substantially influenced by the overall condition of the economy and related phenomena such as the economic cycle, changes in legislation, as well as the political situation in countries where the Group has operations.

The Group operates in many countries of the world, not only as an exporter but also as a local manufacturer and as such is influenced by macroeconomic developments at the global and national levels. Recessions, especially in Western and Central Europe, India and China, could have a direct impact on consumer behaviour in the automotive sector. This exposes the Group to the negative influence of cyclic fluctuations, and the risk of decreased turnover due to recession or collapse of individual economies and subsequent market contraction cannot be entirely eliminated.

Export contracts to countries with potential territorial and political risks are identified sufficiently in advance and hedged using standard, approved products available in the financial and insurance markets. Our partners in this area are Czech and international banking institutions, including EGAP. Political crises, terrorist attacks or even pandemics could have a negative impact on world automotive markets and thereby on the Group's financial situation as well.

Potential negative influences on Group financial performance could also originate from additional technical development costs that could be incurred as a result of changes in legislation, such as stricter legislative requirements on vehicle safety, fuel consumption and/or air emissions, and changes to standard vehicle specifications. In the area of environmental legislation, potential risks include stricter European Union legislation governing car exhaust pipes. Risks also ensue from the law guaranteeing free-of-charge disposal of old vehicles at facilities designated by manufacturers and importers; these risks are already sufficiently covered by a provision.

Operating Risks
Our day-to-day operations harbour various risks that could potentially weaken the Group's financial position and performance.

Business risks that could result from production interruptions due to, e.g., energy outages, technical failures, fires, floods, etc. are commensurately hedged using insurance contracts.

New products inherently carry the risk that customers might not accept them. For this reason, the Group conducts extensive analyses and customer surveys. Trends are identified in timely fashion and examined closely to determine their relevance to customers.

Another possible risk is that the Group might not roll launch new products within the planned time periods, at the appropriate quality level, and within cost targets. This risk is eliminated by reviewing projects regularly and monitoring progress being made toward project goals. This enables necessary measures to be taken in the event discrepancies are found.

Quality Risk
Due to the increasing complexity of production technologies and the growing number of suppliers, quality assurance is a major part of the production process. Despite the fact that we have effective and systematic quality assurance procedures in place, product liability risk cannot be eliminated entirely. In order to reduce quality risk to a minimum from the very beginning, suppliers are involved in new product development at an early stage. In order to identify trends in a timely fashion, it is important to transfer know-how and to work with suppliers to develop control tools and opportunities for managing the quality level, to ensure we meet customer expectations (more on page 54).

Human Resources Risk
Strategy calls for very dynamic development of the Group in the years to come, not only in the domestic manufacturing plants but also in international projects. This strategy forms the basis for the human resources strategy, the primary objective of which is to ensure sufficient personnel, stabilise the work force and motivate employees to meet all economic goals.

Our ability to meet the strategic goal is being negatively impacted by external risks such as, most significantly, rising competition in the labour market, a shortage of qualified personnel and resulting upward pressure on wages. The situation is further complicated by unfavourable demographic development, which will continue to be a factor in the long term.

The Group is responding to the above mentioned risks by emphasising its recruitment campaign, increased co-operation with local Labour Offices and personnel agencies, as well as closer co-operation with universities and secondary schools. Also, a number of initiatives is underway to reduce employee workloads and need for employees through increased automation and robotisation.

Barring unexpected fluctuations in the labour market, we will be able to address all the above risks using instruments and measures defined in the strategic plan.

Information Technology (IT) Risk
In the information systems and technologies area, the Group uses a variety of measures to protect itself against risks related to data availability, confidentiality and integrity. Increased attention is paid to unauthorised access to data and abuse of data. These measures apply to employees, the organisation, applications, systems and networks. Employees are subject to a Group-wide directive on handling information as well as internal directives dealing with safe use of information systems. Technical measures include standard activities such as use of a firewall system, controlling access to individual Group systems and applications. Anti-virus protection, managed application administration and restricted access permissions represent another level of protection against abuse of sensitive information.

Legal Risk
The Group has operations in over 100 countries. This can entail risks, due to differences in legal systems from country to country. The Group does not face any known court, administrative or arbitration proceedings that could have a material impact on its financial situation.

Overall Risk Assessment

Based on all facts and circumstances known to us, we are not aware of any risks that could, in the foreseeable future, seriously damage the Group's financial position and/or performance or pose a threat to the Group's existence.

TOP QUALITY

Zdeňka Stará (quality auditor), Stanislav Malý (quality coordinator, Octavia body shop) – posing in front of a measuring machine

For every Škoda model, a Data Control Model will be developed. This simulation of the interior and exterior has a deviation of only 0.2 mm from the computer graphic and will be used later in the production process.

All employees of Škoda Auto are personally responsible, on their level of competence, for the quality of their work, adherence to environmental protection measures, and constant perfection of their work.

Frank Schreier, Head of Quality Management

FINANCIAL SITUATION

An appropriately chosen strategy, its successful fulfilment, and ongoing optimising of the cost structure and processes combined to drive growth in all significant financial indicators. This development was also reflected in the ongoing growth in Group performance, confirming the Group's financial stability and demonstrating our current solvency to all existing and potential future business partners.

Financial Situation of Škoda Auto Group

The consolidated financial performance figures of Škoda Auto Group are reported in accordance with International Financial Reporting Standards (IFRS). The consolidated financial figures include the results of the parent company Škoda Auto and those of the subsidiaries Škoda Auto Deutschland, Škoda Auto Slovensko, Skoda Auto Polska and Skoda Auto India as well as a share in the result of the associate Volkswagen Rus.

Result and Financing

In the period in question, Škoda Auto Group achieved record vehicle sales volumes. Sales of original parts and accessories were similarly high and there was also an increase in supplies of components to other Volkswagen Group companies. Group sales reflected these successful results, reaching CZK 222.0 billion (+9.0% year-on-year). The total sales figure was distributed as follows: vehicles 88.3%, original parts and accessories 6.9%, supplies of parts and components to other Volkswagen Group companies 3.0%, and the remaining 1.8% consisted of revenues from sales of other goods and services.

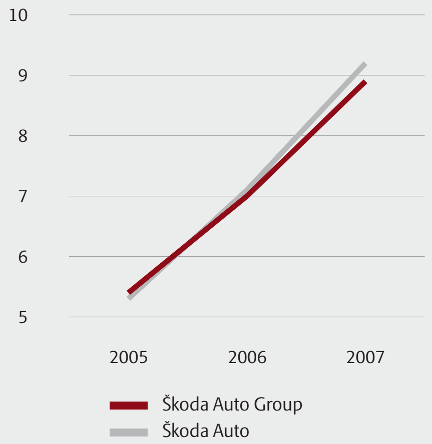
Cost of goods sold totalled CZK 185.5 billion (+5.6% year-on-year). This figure grew in line with vehicle production volume and was also affected by growth in commodity prices in world markets (i.e. steel, precious metals, oil, etc.). These negative external influences were mitigated through ongoing optimising of production costs and processes, quality and leveraging of synergies within the Volkswagen Group.

The ratio of cost of goods sold to sales decreased 2.7% year-on-year. This resulted in a qualitative improvement in gross profit, which rose by CZK 8.5 billion to reach CZK 36.5 billion. The gross margin reached 16.4% (2006: 13.8%).

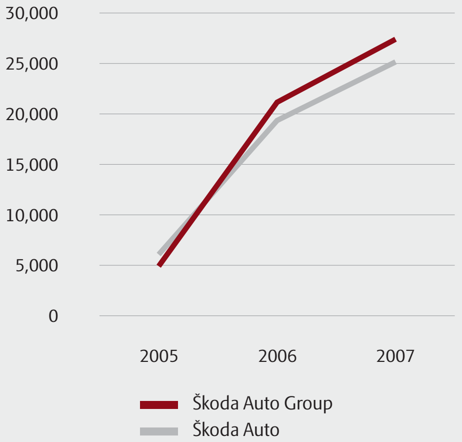
Increased competition in world markets necessitated, among other things, higher costs for marketing support and advertising. As a result, sales-related expenditures increased by CZK 1.3 billion (+10.9%). Another factor contributing to this increase was higher logistics costs, relating to both the number of vehicles sold and higher prices of inputs. Administrative expenses were up CZK 620.0 million (+17.3%) due in particular to a rise in salary tariffs resulting from the collective bargaining process.

GROWTH IN PERFORMANCE AS WELL AS STABILITY OF ŠKODA AUTO ARE CONFIRMED BY SELECTED FINANCIAL INDICATORS

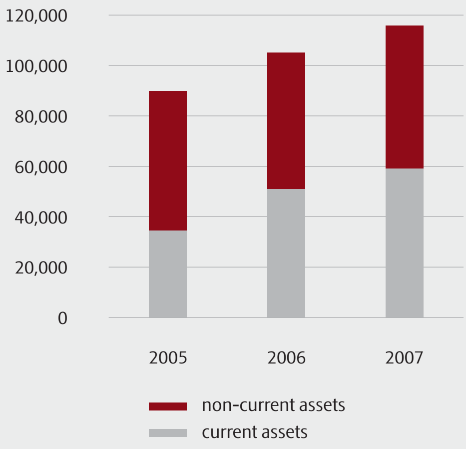
Profit-to-sales Ratio Before Taxation (%)



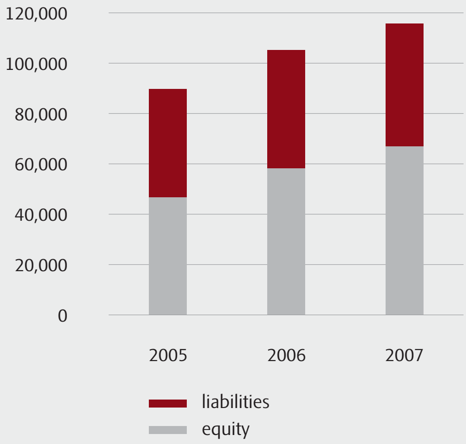
Net Liquidity (CZK million)



Group Asset Structure (CZK million)



Group Capital Structure (CZK million)



Movements in exchange rates were the most significant factor affecting other operating revenues and expenses in the period in question, as the Czech Koruna gained continuously against the Group's other transaction currencies. Other operating expenses were up CZK 991.2 million (+37.0%) from the previous period. Other operating revenues, on the other hand, were down CZK 378.7 million (-8.0%) year-on-year.

The operating result was CZK 19.8 billion, for year-on-year growth of CZK 5.2 billion (+35.5%). For the first time in the Group history, the financial result was positive at CZK 170.8 million (up CZK 574.7 million). The main drivers of the financial result were growth in revenues from interest on loans provided to Volkswagen Group companies and stable costs of financing necessary to cover the Group's needs. Thanks to the above, consolidated profit before tax in 2007 rose to a new record level of CZK 19.9 billion (+39.9%). Overall consolidated profit after tax totalled CZK 16.0 billion – an improvement of 44.5%.

The Group's solid results in operations, financing and resource renewal were reflected in growth in cash flow and net liquidity. Compared to 2006, cash provided by operating activities was up CZK 1 billion (+3.8%). Net liquidity increased by CZK 6.2 billion, reaching a level of CZK 27.4 billion. Thanks to the excellent operating cash flow performance, capital expenditures were fully covered by internal sources of financing.

Asset Structure

The Group's asset structure, expressed in terms of the ratio between non-current and current assets, remained practically unchanged compared to the past year.

Compared to their level at 31 December 2006 (CZK 105.2 billion), total assets increased by CZK 10.6 billion, mainly on growth in current assets. Current assets grew 15.9% year-on-year, driven primarily by a CZK 1.6 billion (+6.8%) increase in short-term loans. The increase in trade receivables (+43.0%) was caused primarily by the time lag in settlement of receivables sold to the factoring company and an increase in receivables for vehicle kits supplied to the new assembly plant Volkswagen Rus.

Inventories increased by CZK 1.3 billion (+10.6%) compared to the previous period and this was caused by the expanded production portfolio at the Group's assembly plants and the need to meet increased customer demand for Škoda cars, among other factors.

In 2007, property, plant and equipment and intangible assets (excluding development expenditures) rose by CZK 10.9 billion (+29.1%). Of this amount, the net increase in property, plant and equipment accounted for CZK 10.3 billion (+25.5%) and investments in intangible assets CZK 590.0 million (+161.1%). The bulk of the total capital investment figure went on product-related investment (CZK 6.5 billion) – i.e., the new-generation Škoda Fabia and preparation for the Škoda Superb's successor. CZK 756.1 million was invested in manufacturing plant upgrades and new infrastructure. In joint investments with Volkswagen Group, we continued to increase the share capital of Volkswagen Rus. In total, the Group invested CZK 298 million in this associate during 2007.

Capital Structure

No significant change took place in the Group's capital structure – expressed in terms of the ratio between equity and liabilities – in the year in question.

In year-on-year terms, Group shareholders' equity increased by CZK 8.7 billion (+14.9%) driven primarily by net profit. The lower pace of equity growth compared to last year was caused by payment of a CZK 8.4 billion dividend to the parent company Volkswagen International Finance NV.

Non-current liabilities were up CZK 1.6 billion (+12.8%) year-on-year, driven in particular by a 29.8% increase in provisions. In non-current provisions, the highest growth was in the provision for warranty claims, the level of which is substantially determined by the number of vehicles sold and commodity prices, which were higher. In current liabilities there was only a minor year-on-year increase (up CZK 269.9 million, i.e. +0.8%).

Consolidated Balance Sheets (CZK million)

	31. 12. 2005	31. 12. 2006	31. 12. 2007	2007/2006 (%)
Non-current assets	55,424	54,292	56,767	+4.6
Current assets	34,331	50,920	59,014	+15.9
of which: lendings*	11,208	23,971	25,592	+6.8
Total assets	**89,755**	**105,212**	**115,781**	**+10.0**
Equity**	46,757	58,321	67,034	+14.9
Non-current liabilities	12,837	12,354	13,940	+12.8
of which: nominal value of bonds	5,000	2,000	2,000	0.0
Current liabilities	30,161	34,537	34,807	+0.8
of which: nominal value of bonds	0	3,000	0	–
Total liabilities	**89,755**	**105,212**	**115,781**	**+10.0**

* interest included
** minority shares included

Consolidated Profit and Loss Account (CZK million)

	2005	2006	2007	2007/2006 (%)
Sales	**187,382**	**203,659**	**221,967**	**+9.0**
Cost of goods, sold	163,738	175,636	185,474	+5.6
Gross profit	**23,644**	**28,023**	**36,493**	**+30.2**
Distribution expenses	10,611	11,903	13,201	+10.9
Administrative expenses	3,676	3,587	4,207	+17.3
Other operating income	4,027	4,747	4,368	(8.0)
Other operating expenses	2,524	2,678	3,669	+37.0
Operating profit	**10,860**	**14,602**	**19,784**	**+35.5**
Financial result	(787)	(404)	171	+142.3
Profit before income tax	**10,073**	**14,198**	**19,860**	**+39.9**
Income tax expense/income	2,180	3,136	3,878	+23.7
Profit after income tax	**7,893**	**11,062**	**15,982**	**+44.5**

Financing – Development (CZK million)

	2005	2006	2007	2007/2006 (%)
Cash and cash equivalents at 1.1.	**15,073**	**12,376**	**28,483**	**+130.1**
Cash flows from operating activities	**23,550**	**27,420**	**28,454**	**+3.8**
Cash flows from investing activities	**(11,566)**	**(11,090)**	**(13,785)**	**+24.3**
Cash flows from financing activities	**(14,670)**	**(156)**	**(11,387)**	**> 200.0**
Gross liquidity	**12,376**	**28,483**	**31,790**	**+11.6**
Balance of financial liabilities	(7,465)	(7,326)	(4,387)	–
of which: factoring	(1,799)	(2,333)	(2,376)	–
Net liquidity	**(4,911)**	**21,157**	**27,403**	**+29.5**

Financial Situation of Individual Group Companies

This portion of the Annual Report contains commentary on the financial results of the parent company Škoda Auto and its subsidiaries, which are reported according to International Financial Reporting Standards (IFRS).

Škoda Auto
Thanks to the excellent sales performance in 2007, the Company posted record financial results. The operating result was CZK 19.0 billion (+38.1%), profit before tax was CZK 19.4 billion (+43.4%), and profit after tax was up CZK 5.0 billion (+46.1%) in year-on-year terms. Since the parent company Škoda Auto accounts for over 95% of the economic grouping, the Company's financial results are highly correlated with those of the Group as a whole.

Result and Financing
Compared to the previous period, revenues increased by CZK 21.2 billion (+11.2%) to a level of CZK 211.0 billion. Revenue growth was driven primarily by increased unit sales, the Company's appropriately chosen model and area strategy, combined with higher non-vehicle sales. Higher sales volume and the worldwide increase in prices of raw commodities had an impact on the overall cost of goods sold, which increased by 7.8% from the previous period. Thanks to measures taken to optimise manufacturing costs, gross profit was up by 36.4% to an absolute level of CZK 30.2 billion. Sales-related expenses rose by 15.3% compared to the previous period, due in particular to higher costs for marketing support and advertising. Administrative expenses rose CZK 540.0 million (+17.1%). As a result of the above, the operating result grew by CZK 5.3 billion (+38.1%). The financial result, too, continued to move in a positive direction, thanks in particular to interest on loans provided to other Volkswagen Group companies, and ended in positive territory (CZK 424.5 million) for the first time in contemporary Company history. After deducting income tax due and deferred (CZK 3.6 billion), net profit came to CZK 15.9 billion.

As in the previous year, cash provided by operating activities (CZK 28.1 billion in 2007) was sufficient to cover total capital expenditure. The Company's net liquidity was CZK 25.2 billion.

Structure of Assets and Capital
Compared to its level at 31 December 2006, the total assets figure grew by CZK 8.1 billion (+8.3%). Non-current assets were up CZK 2.9 billion to CZK 56.9 billion (+5.5%). Current assets were up substantially (CZK 5.2 billion; +11.9%), particularly as a result of higher short-term lending to Volkswagen Group companies and growth in surplus liquidity. Despite significantly higher production volume, the Company's inventories fell by CZK 464.5 million (-5.2%). This was achieved through ongoing optimising of logistic processes and sales policies.

Shareholders' equity developed in line with overall Company performance. Compared to the previous period, shareholders' equity increased by CZK 8.5 billion (+14.7%). Total current liabilities were down CZK 1.2 billion (-4.1%) while non-current liabilities grew by CZK 0.8 billion (+8.7%) compared to the previous period, with the growth in the latter attributable primarily to an increase in the provision for warranty claims.

In 2007, property, plant and equipment and intangible assets (excluding development expenditures) rose by CZK 10.3 billion (+25.1%). Of this amount, the increase in property, plant and equipment accounted for CZK 9.8 billion (+21.5%) and investments in intangible assets CZK 544.9 million (+165.9%). In accordance with the strategy of expansion and build-outs at international assembly plants, the Company increased the share capital of the subsidiary SAIPL by CZK 780 million and the share capital of the associate Volkswagen Rus was increased by CZK 298 million.

Škoda Auto Deutschland
For the Škoda brand in the German market, 2007 was another very successful year. In a significantly contracting overall market, Skoda Auto Deutschland managed to grow its sales by 8,521 (+8.2% year-on-year), to a total of 112,452 units. Market share based on new vehicle registrations reached a level of 3.8%.

In the product portfolio, a particularly big contributor to the above result was the Škoda Octavia model, which was the best selling import car in Germany in 2007. The Škoda Roomster lived up to expectations with total sales of 17,448 units. The new-generation Škoda Fabia was successfully launched and by the end of the year 16,641 units of the new model had been sold.

Skoda Auto Deutschland's sales revenues increased compared to 2006 by CZK 1.8 billion (EUR 99.6 million) to CZK 47.1 billion (EUR 1.7 billion). The result before tax was up CZK 48.2 million (EUR 2.0 million) from the previous year, i.e. to CZK 316.8 million (EUR 11.5 million). Net liquidity reached a value of CZK 732 million (EUR 27.5 million). The CZK 364.7 million (EUR 13.7 million) year-on-year decrease is due to an increase in year-end inventory levels relating to the Company's planned sales strategy.

The Škoda brand received top honours in many high-profile competitions. The new-generation Škoda Fabia won the prestigious "Goldenes Lenkrad" (Golden Steering Wheel) as the best vehicle in its class. This was reaffirmed multiple times as the model went on to beat its chief competitors in all comparison tests conducted by major industry journals such as Auto Motor und Sport, Auto Zeitung, Auto Bild, and Auto. Furthermore, in the "ADAC ECO" test for the cleanest diesel engine, the Škoda Octavia RS placed fourth in the overall ranking. The Škoda Octavia 4x4 repeated last year's performance by winning the "All-road Auto 2007" title in its category. The Škoda Roomster came out the winner of the "Auto der Vernunft" (Intelligent Car) competition as well as winning the Red Dot Design Award.

Škoda Auto Polska
As a result of steep growth in demand for new cars in the Polish market, demand outstripped our ability to supply vehicles. As a result the Škoda brand's Poland market share declined to 11.2% (down 0.8% from 2006). Despite this, Škoda was the second best selling brand in the country.

In view of overall market development, the Škoda brand's 33,210 cars sold represent an improvement of 4,427 cars over the previous year. The 15.4% sales growth was driven in particular by the success of the Škoda Octavia, Škoda Roomster and new-generation Škoda Fabia models, the last of which was launched in the Polish market in May 2007. Thus, Skoda Auto Polska fulfilled its marketing strategy, which focuses on new models as bearers of the brand's image and, at the same time, includes elements designed to ensure volume and financial targets are met.

Skoda Auto Polska sales revenues were up CZK 1.2 billion (PLN 148.8 million) from 2006, to a total of CZK 11.3 billion (PLN 1.6 billion). Profit before tax reached CZK 115.3 million (PLN 15.5 million), which is CZK 82.9 million (PLN 11.0 million) more compared to 2006. This level was reached despite growth in marketing expenses, thanks in particular to increased unit sales, an improved model mix and a reduction in other unit costs of sales.

Net liquidity was down CZK 175.7 million (PLN 23.7 million) year-on-year, to CZK -61.5 million (PLN -8.3 million). The main reason for this development was an increase in inventories to meet higher volume targets.

In 2007, for the second time in a row, the Škoda brand's sales and service network in Poland placed first in Auto Swiat magazine's test of car dealerships. The new Škoda Fabia won comparison tests in the car magazines Auto Motor a Sport and Auto Swiat.

Škoda Auto Slovensko

Despite intensified competition in the market, the Škoda brand managed once again to defend its position as market leader with 19,358 cars sold. Still, however, this was 2,022 cars less than in 2006. As a result, market share also declined to 32.1% (2006: 36.0%). The Škoda brand's stable position in the Slovak market was maintained by the Škoda Fabia and Škoda Octavia models, both of which defended the position of best selling vehicle in their respective segments. An important step for Škoda Auto Slovensko in 2007 was the Slovak market launch of the successor to the best selling model – the Škoda Fabia.

Compared to 2006, the company's sales revenues fell by CZK 304.9 million (SKK 1.1 billion) to CZK 7.6 billion (SKK 9.3 billion). Profit before tax, on the other hand, posted growth of CZK 10.2 million (SKK 16.2 million) to CZK 34.9 million (SKK 46.0 million).

For the second time in a row, Škoda Auto Slovensko posted positive net liquidity: CZK 208.6 million (SKK 263.47 million). This level was achieved thanks to successful optimising of the sales function (focusing on customer needs) and nearly 100% utilisation of factoring in sales of vehicles to the dealer network.

Škoda Auto India

In 2007, sales of Škoda cars exceeded the 2006 level to establish a market share of 0.8%. In their segment, Škoda vehicles had a market share of 23.4% (down 3.3% from 2006). This was caused, among other factors, by increased competition and rising interest rates for new car financing. Despite these developments, the Škoda brand became the second best seller in its segment. Skoda Auto India reacted flexibly to the rising standard of living and rapid urbanisation, expanding the dealer network up to 51 points of sale with the aim of increasing brand awareness and laying the foundations for further growth.

In total, 12,170 cars were delivered to customers in 2007, i.e. up 65 units from 2006. The core model was the Škoda Octavia, sold under the brand name Laura in the Indian market. New equipment and features for the Škoda Octavia and Škoda Superb launched in the Indian market in 2007 helped appeal to a wider range of customers.

A total of 12,870 vehicles rolled off the Indian assembly plant's assembly lines in 2007. For the first time, Skoda Auto India also provided its production capacity to the Group brands Volkswagen and Audi. In October 2007, the Aurangabad plant also began producing the new-generation Škoda Fabia.

Compared to 2006, the company's sales revenues rose by CZK 184.8 million (INR 667.2 million) to CZK 6.1 billion (INR 12.4 billion). The company posted a profit before tax of CZK 361.9 million (INR 730.9 million), up CZK 121.8 million (INR 244.7 million) from 2006.

In order to finance capital investment plans and further expand the product portfolio, 2007 saw the basic share capital of Skoda Auto India increased by CZK 780 million to a final level of CZK 1.1 billion.

Despite extensive capital expenditures to commence production of new models, the company achieved a positive net liquidity level of CZK 1.1 billion (INR 2.4 billion), up CZK 738.9 million (INR 1.6 billion) year-on-year.

In 2007, the Škoda brand added several more prestigious awards to the long list of recognition it has accumulated since its arrival in the Indian market. Once again, it placed first in a study conducted by the renowned British company J. D. Power Asia Pacific to measure customer satisfaction with passenger cars. Also in 2007, the Škoda Octavia received the "Voice of the Customer" award from TNS Automotive as the best vehicle in its segment.

Volkswagen Rus

Most of the company's activities in 2007 focused on construction of an assembly hall and start-up of vehicle assembly there based on SKD (Semi-Knocked Down) vehicle kits. Assembly capacity in the SKD phase reached 170 vehicles per day. Concurrently, the company invested in preparation and construction of a second factory for assembling vehicles from components a higher knock-down level (CKD). When completed, the Kaluga plant will have a welding shop and a paint shop in addition to the assembly hall.

October saw start-up of assembly of the Škoda Octavia and the Škoda Octavia Tour models in a joint Škoda Auto – VOLKSWAGEN AG project. This was followed in November by start-up of assembly of the new-generation Škoda Fabia. By year end the Russian factory had assembled a total of 1,109 Škoda brand cars. The exclusive customer for products of Volkswagen Rus is the sales company Volkswagen Group Rus, which further distributes the cars to customers in the Russian market through a network of dealerships.

As production commenced late in the year, the company's current costs exceeded revenues from sales of finished cars. Consequently, the result for 2007 was an accounting loss of CZK 228.4 million (RUB 308.9 million). Thanks to capital expenditures, the company's total assets rose from CZK 480.6 million (RUB 606.1 million) at the beginning of the year to CZK 4.3 billion (RUB 5.8 billion) at year end.

VALUE-ORIENTED MANAGEMENT

We use the resources entrusted to us with an awareness of responsibility for our growth. The aim is to continually increase the value of Škoda Auto Group and thereby retain our independence.

Sustainable Economic Development
Every company is subject to many, often contradictory, demands – from the markets in which it operates, from investors and owners, and from other interest groups. Customers expect fantastic products, shareholders expect dividends and returns on their investments, employees expect job security, and suppliers expect commensurate consideration for products supplied and services rendered.

The fulfilment of these expectations of various interest groups is possible only if the company has a healthy economic foundation. From a long-term perspective this means that it is able to generate sufficient resources above and beyond capital costs for investment in products, quality and technology, and thereby continually maintain its competitiveness.

Therefore, the Group pays extraordinary attention to effective utilisation of resources as a tool for achieving sustainable economic development.

Financial Management System
The basis of the internal financial management system is a focus on attaining continual growth in value. This objective is closely related to the utilisation of all available resources.

In order to optimise the asset and capital structure and, further, to measure the effectiveness of invested resources, the Return on Capital Employed indicator is used. This indicator allows us to measure the success of the Company as a whole, and it also serves well as a criterion for comparing, assessing and subsequently deciding on investment proposals, projects, and products, or to evaluate individual areas. The Group uses the indicator both in day-to-day decision-making with the aim of achieving planned short-term results, as well as to achieve strategic goals.

In 2007, the Group's ROIC was 22.5% (2006: 16.8%). This value puts Škoda Auto Group in a leading position among automotive manufacturers. Details of the calculation of this indicator, including determination of input parameters, is presented in the financial section of this Annual Report, on page 103.

A closely related indicator to Return on Capital Employed is the Economic Value Added (EVA) indicator, which expresses whether a company is creating economic value added for its owners or, on the other hand, destroying the value invested by the owners. In this respect, Škoda Auto is a company with high value added for shareholders – this was reaffirmed by the results of the "2006 EVA™ Ranking Czech Republic" project, which publishes a ranking of the 100 most successful Czech corporations by EVA. With a value of CZK 5.47 billion*, Škoda Auto posted a year-on-year improvement of nearly CZK 1 billion.

* value was determined by Central European Capital CZ, s.r.o. using calculation methodology of the consulting company Stern Stewart & Co.

HARMONIOUS TEAM

Ondřej Motl, Miroslav Němec, Milan Slezák (information systems and organisation) – posing in a server room,
Jan Šnýdr – monitoring the server activity in the background

The company Škoda Auto needs more than 300 information systems for its operations. In order to secure their accessibility, our team is available 24 hours a day, 7 days a week. That represents about 6,000 operating contacts with end users a month, looking after approximately 9,000 personal computers and workstations, management of more than 11,000 e-mail accounts, 34,000 network ports with a length of internal cable routes comparable with the length of the Czech Republic's border, and hundreds of servers with hundreds of terabytes of stored data.

A modern and competitive company must have a good organisational structure and optimal processes. It is crucial to find the right structure of teams and to establish processes which allow for achieving mutual harmony.

Martin Taege, Head of Information Systems and Organisation

TECHNICAL DEVELOPMENT

The unveiling of new products and technical advances, intensive development of existing and new models, ongoing construction of a new technology centre and renewal of our ISO certifications – these are just some of the activities that further built and reinforced the Technical Development function at Škoda Auto in 2007.

Attractive design and sophisticated technology, maximum comfort, high level of active and passive safety, compliance with strict statutory requirements, continual technological advances, convincing quality and, last but not least, vehicles that are friendly to the environment – those are the principle factors behind the worldwide success of Škoda-brand products. At the same time, these are also the primary goals and tasks of the Company's technical development function. In 2007, their successful implementation was the daily bread of a total of 1,509 employees, which is 89 more than in the previous year.

In 2007, Technical Development focused on development of new projects for vehicles and vehicle modules. This included both design work on both exteriors and interiors, as well as preparation of new automobile concepts. Individual parts of existing modules were optimised, new Volkswagen Group power trains were fitted to Škoda vehicles, and the development of vehicle-specific electrical and electronic equipment continued.

In the past year, Škoda Auto outlays for technical development totalled CZK 5.5 billion, which represents 2.6% of the Company's overall turnover (2006: CZK 4.7 billion, 2.5%).

Technical Development Competencies

Within the Volkswagen Group, the name Škoda Auto Technical Development is associated with a number of unique methods and optimising concepts, the results of which are further utilised in joint projects within the Group. Mutual co-operation and know-how exchange are very important tools for reducing overall costs. Another significant benefit is employee continuing education – both professional and in foreign languages.

Maintaining the high professional level of Škoda Auto technical development requires considerable investment in expanding development capacities. Among other facilities, the new technology centre complex, the construction of which was fully underway in 2007, will boast extensive space for modern acoustic and climate testing. Starting in 2009, the centre will create 370 job positions for qualified professionals.

Technology, New Products

Last year the most important new developments included, in particular, the launch of a new generation of the Škoda Fabia, and its derivates.

The new-generation Škoda Fabia was given its world premiere in the spring at the International Motor Show in Geneva. Later, in the fall at the motor show in Frankfurt am Main, we introduced the Fabia Combi, the estate version of this model. Thanks to their excellent features and attractive design, both vehicles received an extraordinary response both from customers and trade journals.

Sports-car look, dynamic lines, bold front grille, black front and middle body pillars and optional white roof – those are the characteristic features of the new Škoda Fabia. Compared to its predecessor, it is 22 mm longer and offers 40 litres (54 litres in the Combi) more luggage space. When the back seats are folded, the luggage space is 147 litres (235 litres on the Combi) bigger. The new Škoda Fabia offers a higher degree of passenger safety (including four airbags as standard), and also complies with a strict regulation on pedestrian protection. The seats are positioned higher for a better view out of the vehicle and greater comfort when entering and leaving the vehicle.

ŠKODA AUTO INTRODUCES GREENLINE: VEHICLES WITH OPTIMISED FUEL CONSUMPTION AND REDUCED CO_2 EMISSIONS

The GreenLine versions of Fabia and Fabia Combi express the commitment of the Škoda brand to improving the environment. These models feature significantly reduced CO_2 output (109 g/km for the Fabia) and, at the same time, lower fuel consumption (by up to 15% compared to the standard version), with minimal restrictions on optional equipment. These parameters were achieved thanks to special engine and gearbox configurations as well as by elements designed to reduce air resistance. The GreenLine models' fuel efficiency is also supported by reduced vehicle weight and special, smooth-running tyres.

Starting in March 2007, Škoda Auto also makes a classic light commercial vehicle, designated primarily for small and medium sized businesses. The Škoda Praktik has a roomy cargo space with an anti-slip floor, steel lugs for tying down cargo, sheet metal instead of glazed windows in the rear doors, and protection of the tailgate window against damage from shifting cargo. In order to separate the crew cabin from the cargo area, we came up with a unique solution in the spirit of "Simply Clever". The segmented partition can be moved back and forth and set in any position to adapt to cargo size. The crew cabin, for its part, offers the comfort and safety of a passenger car with four airbags, ESP, and other optional equipment.

In January 2007, the Škoda Octavia Scout expanded the line-up of models in the Octavia family. It is focused primarily on customers who lead an active lifestyle. The Scout's convincing off-road driving characteristics are made possible by 40 mm higher road clearance and four-wheel drive. Compared to other Octavia versions, this vehicle has unique plastic components and light-alloy wheels specially developed for this version.

Engine of the Future – 1.8 TSI

The Geneva Motor Show was chosen as the venue for introduction the new 1.8 TSI engine. The turbocharged, 1798 ccm engine has a maximum output of 118 kW at 5000–6200 RPM and a maximum torque of 250 Nm at 1500–4200 rpm. In addition to high torque and power over a wide range of RPMs, the engine is also characterised by smooth, quiet operation, minimal vibration, and high fuel efficiency.

Products and the Environment

The Fabia and Fabia Combi GreenLine models, first introduced at the Frankfurt Motor Show in September, are a direct expression of the Company's commitment to a healthy environment. These models feature significantly reduced CO_2 output and, at the same time, lower fuel consumption. A particle filter (DPF) goes without saying on these models, and thanks to its presence the vehicles are already in compliance with the Euro 5 and Euro 6 particulate limits that will take effect in Europe starting in September 2009 and September 2014, respectively.

In line with the Company's strategy of sustainable development, work activities were further focused on development of engines burning alternative fuels. A concrete result in this area is the introduction of a modified petrol engine that can run on FlexFuel. FlexFuel is an E85 mix, i.e. 85% bioethanol – a renewable source of energy – and 15% petrol.

Work began on a Compressed Natural Gas (CNG) powered vehicle, and the first study prototype was built. In addition, talks were held with the Ministry of the Environment of the Czech Republic and gas industry representatives with the aim of ensuring greater availability of this fuel in the Czech Republic.

Certifications

In July 2007, Škoda Auto received a preliminary audit certificate from TÜV SÜD CZECH. This certification is a necessary prerequisite for type-approval under Directive 2005/64/EC – Recycling. This certificate confirms that Škoda Auto has introduced and is implementing measures to ensure compliance with requirements for the type approval of vehicles with regard to their recyclability and reusability.

Also, in October 2007 Škoda Auto Technical Development successfully underwent ISO 9001 and ISO 14001 certification audits.

Škoda Motorsport

The Škoda brand has long been associated with motorsport – the Company has been producing special racing cars for over 100 years now. Certain technical solutions, subjected to demanding tests, and practical experience gained in the often extreme conditions of motor racing, can also be applied to the development of production vehicles.

In accordance with a decision taken by Company management to preserve and develop the brand's motorsport tradition, the bulk of our activities in this area were focused on developing a Super 2000 category vehicle according to FIA regulations, as for viewers, the Super 2000 class is likely to be the most attractive category of automobile rallies. It will offer very high performance cars produced at reasonable cost, which in general will make them more affordable compared to WRC automobiles.

The most important event of 2007 was the premiere of a design study of the Škoda Fabia Super 2000 rally car at the Geneva Motor Show in March. Intensive development work on this model continued throughout the year.

PURCHASING

Successful launch of series production of the new-generation Škoda Fabia, support for new international projects, and minimising the impact of developments in commodity markets – these, together with the commencement of a tradition of supplier symposia, were all major factors in achievement of the 2007 performance results. They also reinforced our relationships with suppliers.

In 2007, Purchasing continued to develop existing suppliers and seek out appropriate new ones. The primary selection criteria were unchanged from last year's: quality, reliability and price, as well as capability to innovate and deliver the required volumes. In order to leverage synergies and reach savings in material costs, we proceeded in close cooperation with the Volkswagen Group purchasing function. In supplier management, an important task was to build relationships with suppliers with an emphasis on optimising processes, quality and costs.

A key task was to secure supplies for production of the new-generation Škoda Fabia. During the year, we commenced preparing for production of successor of the Škoda Superb. These activities included providing support for international projects within the framework of the Group's expansion strategy.

Škoda Auto Purchasing also had to deal with developments in the markets for raw materials and other inputs. Particularly challenging was ongoing price growth in plastics and steel. These factors were partially compensated by entering into long-term contracts.

Supplier Management

The Company recognises the crucial role suppliers play in the process of successfully developing the brand. We therefore place extraordinary emphasis on intensifying relations with suppliers, improving the effectiveness of co-operation and information exchange, and other methods for directly developing partners' professional competencies.

Supplier involvement right from the early phases of new product development is made possible by communicating over the Internet (using a B2B platform). B2B has proven effective as a communications tool for day-to-day exchange of information from technical data and conditions of the current job through sending of requests for proposal (RFP) to purchase orders and invoices.

Regular workshops with suppliers, which are also attended by representatives of Technical Development and Quality, provide a venue for exchanging know-how and developing new projects, as well as an opportunity to identify new standards and potentials for optimising materials costs.

The Company's first-ever Supplier Symposium was held in March 2007 on the occasion of the unveiling of the new-generation Škoda Fabia, with 150 key suppliers and the Company's Board of Directors in attendance. In addition to commencing a tradition of meetings at the highest level, the event's primary goal was to initiate an open discussion of anticipated future trends in the automotive industry, define common goals and examine other topics of strategic importance for both sides.

Development of the Supplier Network

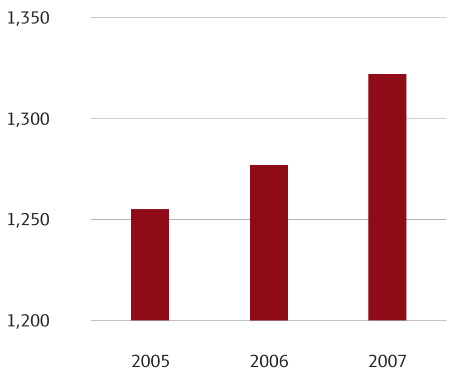
In addition to traditional supplier territories (Czech Republic and Europe), sourcing from countries such as Russia, India and China is becoming more feasible. On one hand, this trend is related to the advantage of supplying directly to local manufacturing plants. On the other hand, it also offers potential cost savings for supplies to other Group factories. Another factor is the need to meet the growing needs of our international projects. In 2007, development of the supplier network continued, and the criteria used to evaluate local suppliers included currency exchange rates and the local partner's know-how in the quality and development areas, in addition to cost and capacity factors.

General Purchasing
The principal focus areas in general purchasing in 2007 included securing production equipment for the SUV model currently in preparation. Other important projects included the ongoing construction of the Technology Centre for technical development and preparation of a logistic chain for Škoda Octavia production in Bratislava. In the already established, yet still continually expanding B2B project we began using an on-line RFP system. The total number of suppliers for general purchasing reached 5,579 (2006: 4,408), while the total purchasing volume reached CZK 17.7 billion (2006: CZK 13.3 billion).

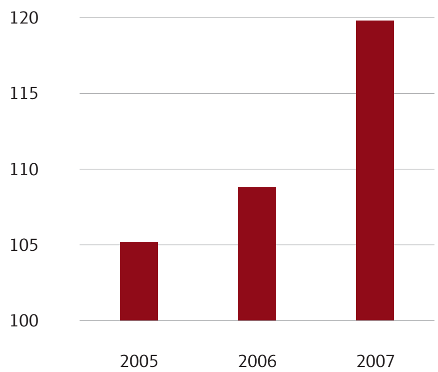
Production Purchasing
The Company's total production purchasing volume in 2007 was CZK 119.8 billion, which was up CZK 11 billion from the previous year (CZK 108.8 billion). The fact that local suppliers were of strategic importance to the Company was confirmed by their long-term high volume share (61%). Germany-based suppliers, with nearly one quarter of production purchasing volume, were another important supplier group.

The total number of production-related suppliers was 1,322 (2006: 1,277). Of this number, 265 (20%) were Czech companies, 16 of them from the immediate area surrounding Mladá Boleslav. The strongest supplier region in terms of corporate registered offices was Western Europe, with 997 partners (72%).

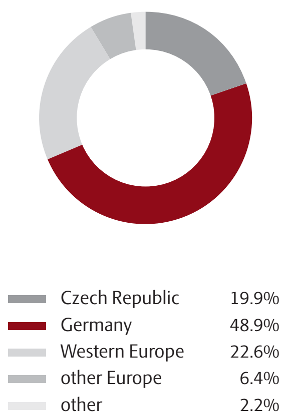
Total Number of Production Purchasing Suppliers



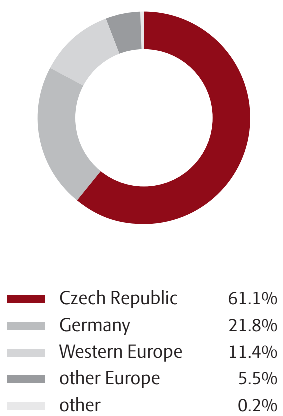
Production Purchasing Volume (CZK billion)



Production Purchasing Volume by Region, 2007 (%)



Production Purchasing Suppliers by Region, 2007 (%)



PRODUCTION AND LOGISTICS

The successful start-up of series production of the new-generation Škoda Fabia, maximum utilisation of production capacities and expansion of international projects into additional regions – these factors led to record Group production volume of nearly 623,000 vehicles. When vehicles produced in China are included, worldwide production of Škoda cars reached 661 thousand units.

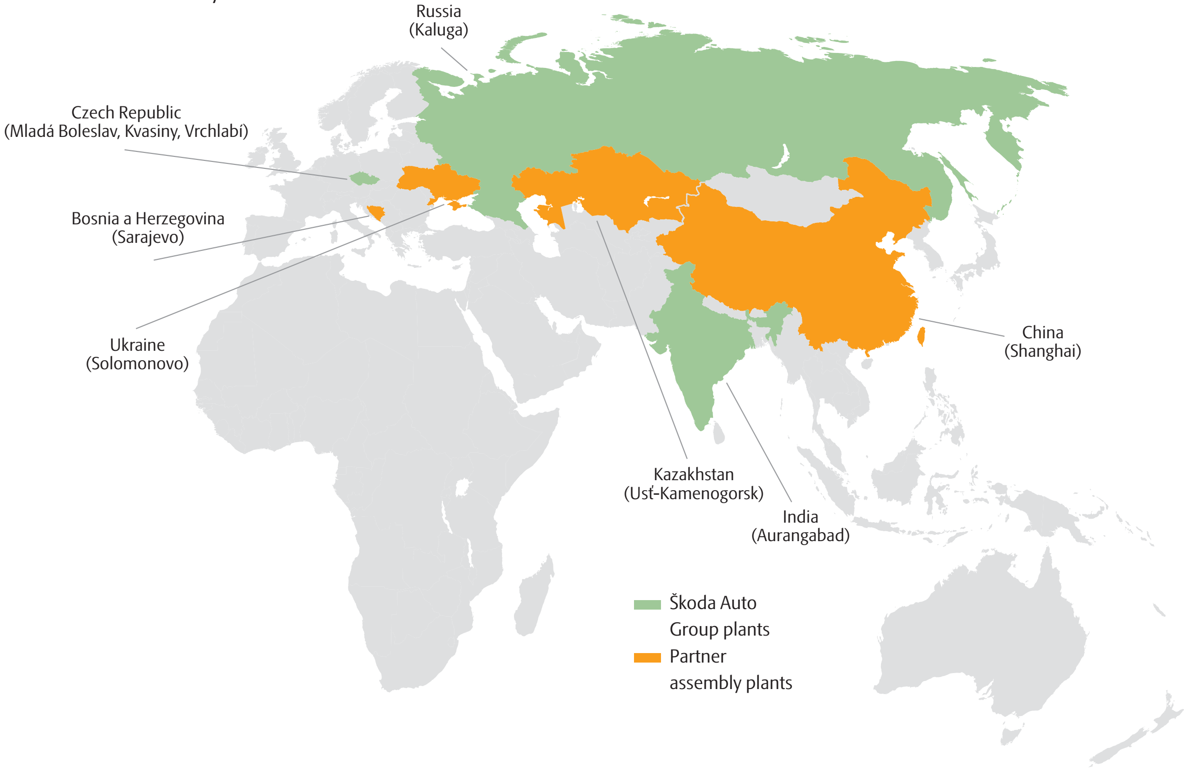
In addition to the parent company Škoda Auto's traditional manufacturing plants in Mladá Boleslav, Vrchlabí and Kvasiny (Czech Republic) and the assembly plant in Aurangabad, India, as of October 2007 the Group is also assembling vehicles in a new plant in Kaluga, Russia.

Besides our own manufacturing and assembly plants, the Group has long co-operated with partner plants in Solomonovo (Ukraine), Sarajevo (Bosnia and Herzegovina) and Ust Kamenogorsk (Kazakhstan). Since March 2007, Škoda vehicles have also been produced under a licence agreement at the Shanghai Volkswagen plant in China.

In its plants, the parent company produces finished vehicles as well as vehicle kits at various knocked-down levels. At the same time, it also produces power units (engines and gearboxes), engine and gearbox components, and original parts and accessories. Vehicle kits are shipped from the Group's production plants to partner plants in other countries for final assembly.

In order to leverage synergies within the Volkswagen Group, 2007 saw the range of finished vehicles produced by the Group expanded to include models of other Volkswagen Group brands. In addition to Škoda brand vehicles, the production portfolio now includes Volkswagen and Audi brand vehicles.

Škoda Brand Manufacturing and Assembly Plants



Group Vehicle Production

2007 saw another major increase in production volume. The overall number of 623,291 vehicles produced represents year-on-year growth of 12.0% (2006: 556,347 vehicles) as well as a new record in Group history. With regard to extraordinary customer demand, our main focus in 2007 was on achieving maximum utilisation of production capacities. Attention was also focused on successful production launches of new models – that of the second-generation Škoda Fabia model line primarily.

Škoda Fabia

Regarding Škoda Fabia, 2007 was characterised by efforts to put the new generation model into production. While the priority in the first half of the year was to fully ramp up production of the Fabia Hatchback, in the second half we took steps to put the Fabia Combi into series production. In order to commence and ramp up production, extensive changes were made to production processes in the body shop, and smaller modifications were made in the paint shop and final assembly at the Mladá Boleslav plant. During November, i.e. less than one year after the start of production, the 100,000th new generation Fabia rolled off the Group's production line. In the same month, we commenced series production of the Fabia Combi at the Mladá Boleslav plant and by year end the first 4,413 vehicles of this type had been manufactured. In this way, the new-generation Škoda Fabia gradually took the place of its successful predecessor on the production lines.

In 2007, the Škoda Fabia model line accounted for 39.1% of production output, for a total of 243,669 vehicles (aggregate for both generations of the model). Despite the retooling required by the generation change, Fabia production output rose by 1.1% from 2006, when 241,115 vehicles were manufactured. Taken as a whole, including Hatchback, Combi (estate) and Sedan (notchback), the Škoda Fabia accounted for the bulk of the production programme.

Škoda Roomster

Driven by high demand, production of the Roomster totalled 69,637 units. In the first half of the year, the Praktik model was added to the Škoda Roomster production range and by year end 6,238 units were produced.

Škoda Octavia

The Škoda Octavia line once again increased its position in the production spectrum. Continually growing demand for this model necessitated capacity increases on the assembly lines in Mladá Boleslav and Vrchlabí from 804 vehicles per day in early 2007 to 900 vehicles per day in December. During the year, the new Scout version of the Škoda Octavia Combi successfully established itself in the production line-up.

In total, the Group produced 208,848 vehicles in 2007. Compared with the previous year this represents an increase of 4.1%. Another milestone attesting to the success of the Škoda Octavia was reached in April 2007, when the half-millionth Octavia rolled off the assembly line.

Škoda Octavia Tour

The Škoda Octavia Tour, in the Limousine (liftback) and Combi (estate) versions remained in the production programme of the Vrchlabí plant.

Total production during the period in question reached 73,080 vehicles, up 5.7% from 2006, when 69,124 vehicles were produced.

Škoda Superb

Thanks to the stable position of the prestigious Škoda Superb model line, 21,339 vehicles were produced in Group plants, which is 936 more than in the previous year. Late 2007 brought preparations for production of the new generation of this vehicle, with production itself set to commence in mid-2008.

Volkswagen Group Models

In 2007, our assembly plant in Aurangabad, India became a base for the Volkswagen and Audi brands. In July the plant began assembling the VW Passat and the Audi A6 followed in September, both for the Indian market. In total, 54 Audi vehicles and 426 Volkswagens were assembled during the first year.

Portfolio of models produced or assembled in Group plants (as of 31 December 2007)

	Fabia	Fabia II	Roomster	Octavia	Octavia Tour	Superb	Audi A6	VW Passat
Mladá Boleslav	•	•		•				
Vrchlabí				•	•			
Kvasiny			•			•		
Aurangabad		•		•	•	•	•	•
Kaluga		•		•	•			

Production of Group vehicles

	2005	2006	2007	2007/2006 (%)
Fabia	115,667	121,506	33,296	-72.6
Fabia Combi (including Fabia Praktik)	95,265	107,176	74,053	-30.9
Fabia Sedan	15,232	12,237	13,137	+7.4
Fabia II	–	196	118,770	–
Fabia II Combi	–	–	4,413	–
Fabia, total	**226,164**	**241,115**	**243,669**	**+1.1**
Roomster	**–**	**25,055**	**69,637**	**+177.9**
Praktik			**6,238**	**–**
Octavia Tour	48,131	53,631	58,388	+8.9
Octavia Combi Tour	18,188	15,493	14,692	-5.2
Octavia Tour, total	**66,319**	**69,124**	**73,080**	**+5.7**
Octavia	94,718	99,840	101,891	+2.1
Octavia Combi	85,491	100,810	106,957	+6.1
Octavia, total	**180,209**	**200,650**	**208,848**	**+4.1**
Superb	**21,435**	**20,403**	**21,339**	**+4.6**
Škoda brand, total	**494,127**	**556,347**	**622,811**	**+11.9**
VW Passat	–	–	426	–
Audi A6	–	–	54	–
VW Group brands, total	**–**	**–**	**480**	**–**
Total production volume	**494,127**	**556,347**	**623,291**	**+12.0**

International Group Projects

2007 saw continued expansion of Škoda brand international production. Projects are being implemented in the Group's assembly plants in India and Russia.

In addition to commencing assembly of Volkswagen Group brands, in October the plant in Aurangabad, India began assembling the new-generation Škoda Fabia. By year end a total of 876 vehicles of this model line had been assembled. A total of 12,390 Škoda cars and 480 vehicles of other Volkswagen Group brands rolled off the Indian plant's assembly lines.

In October, assembly of the Škoda Octavia and Škoda Octavia Tour models began in Kaluga, Russia, as part of a joint Škoda Auto and VOLKSWAGEN AG project. This was followed in November by the beginning of assembly of the new-generation Škoda Fabia. The total number of vehicles assembled in Russia in 2007 was 1,109.

Vehicle Production in Partner Plants

The total number of vehicles assembled and/or produced in partner plants in 2007 was 66,137, which represents year-on-year growth of nearly 200%.

In September, the Sarajevo plant began assembling the new-generation Škoda Fabia. In 2007 the total number of vehicles we assembled in Bosnia and Herzegovina was 2,579.

In May, our partner company Eurocar Salomonovo successfully commenced assembly of Škoda Roomster vehicles and in June it began assembling new-generation Škoda Fabia. The total number of vehicles assembled in Ukraine in 2007 was 23,337.

The plant in Kazakhstan (Ust Kamenogorsk) assembled a total of 1,557 Škoda Octavia Tour cars and Škoda Superb cars.

In Shanghai, China, March 2007 saw the successful start of production of Škoda Octavia vehicles under licence. A total of 38,664 vehicles rolled off the assembly line there.

Portfolio of models assembled or manufactured in partner plants

	Fabia	Fabia II	Roomster	Octavia	Octavia Tour	Superb
Bosnia and Herzegovina	•	•		•	•	•
Ukraine	•	•	•	•	•	•
Kazakhstan					•	•
China*				•		

* production in the SVW plant under licence

ŠKODA AUTO IS VERY EXPERIENCED IN DELIVERING KNOCKED-DOWN VEHICLES

Škoda Octavia Tour in knocked-down form in the CKD centre

As early as the 1920s and 30s, automobiles were exported from Mladá Boleslav in knocked-down form for assembly in England, Australia and Russia. Later, in the 60s and 70s, the kit assembly technique was used for exports to New Zealand, Pakistan and Turkey. The first deliveries of dissassembled vehicles in modern history took place in 1994, when the first 1,000 kits of the Škoda Favorit model were delivered to a factory in Poznan, Poland, which went on to assemble Škoda cars until 2002. Over time, the abbreviations of the respective knock-down level such as FBU, SKD, MKD and CKD have become common terminology.

Knock-down levels

Abbreviation	Meaning
FBU “Fully Built Unit”	fully assembled vehicle
SKD “Semi Knocked Down”	fully equipped car body, power train, chassis, exhaust manifold, small parts for assembly, and operating fluids
MKD/CKD-3 “Medium Knocked Down”	painted body, all parts for assembly including engine, gearbox, chassis, operating fluids
CKD “Completely Knocked Down”	pressed and welded parts of certain body sub-assemblies, all parts for assembly including engine, gearbox, chassis, fluids

The key logistics location is the “CKD centre” in Mladá Boleslav, which prepares, packages and ships vehicles in kit form at the required knock-down level. In addition, certain components which are sent abroad in kit form are also prepared in the Kvasiny and Vrchlabí factories, or are delivered by Group and external suppliers.

At present, vehicles in different knock-down levels are assembled in Bosnia and Herzegovina (since 1998), in India (2001), Ukraine (2002), Kazakhstan (2005), and in Russia (2007).

Vehicle assembly/manufacture in partner plants

	2005*	2006*	2007	2007/2006 (%)
Bosnia and Herzegovina	2,267	2,170	2,579	+18.8
Ukraine	9,785	19,013	23,337	+22.7
Kazakhstan	387	1,124	1,557	+38.5
China**	0	0	38,664	–
Total	**12,439**	**22,307**	**66,137**	**+196.5**

* method for reporting number of vehicles assembled in partner plants was retroactively revised in 2007
** production in the SVW plant under licence

Logistics

A repeat year-on-year increase of over 12% in the number of vehicles produced by the Group put high demands on logistic processes, particularly in the production preparation and launching phases. In this respect, 2007 was the year of the new-generation Fabia Combi. Precise management of logistic processes and successful implementation of all planned production launches laid the foundations for full utilisation of the capacities of the Group's manufacturing and assembly plants.

In conjunction with the expansion in the Škoda brand's international production operations, a 5,500 sq. m. CKD centre was opened in 2006, the primary task of which is to logistically secure vehicle kit parts for various international projects. In 2007, the Škoda CKD centre became fully established in the logistic operations of the Volkswagen Group's brands and at the same time became a major know-how facilitator for other Volkswagen Group partners.

Production of Power Units

Within the Volkswagen Group, Škoda Auto has established itself as a renowned supplier of engines, gearboxes and their components. Increased demand for 1.2 litre three-cylinder engines and MQ 200 gearboxes made it possible to significantly increase production in 2007.

In 2007 we produced a total of 306,783 engines, which is 8.6% more than in 2006. Of the total unit volume, 61.2% was supplied to customers within the Volkswagen Group.

Total production of MQ 200 gearboxes in 2007 was 519,135 units, up 13.5% from 2006. Of the total volume, 45.5% gearboxes were supplied to customers within the Volkswagen Group.

Production of power units

	2005	2006	2007	2007/2006 (%)
1.2-litre engine	301,796	282,564	306,783	+8.6
MQ 200 gearbox	407,093	457,314	519,135	+13.5

QUALITY

Ongoing optimising of all processes from the moment a product enters development until it is handed over to the customer, renewal of ISO certifications and winning of the prestigious Volkswagen Excellence award for quality in production processes – those were the most important events of 2007 that contributed to final customer satisfaction with our products and helped drive our financial performance to record levels.

Quality Assurance

Quality is a fundamental key to winning customer satisfaction and trust, and thereby to building customer loyalty to the brand. It has a decisive influence on the brand's overall image and also substantially influences customer decision-making on vehicle purchase. In today's highly complex automobile industry, quality comprises an extensive system of processes and methods that affects nearly all areas of the Company, from technical development and purchasing, through actual production, to repair and maintenance services. Škoda Auto is fully aware of this fundamental importance and quality management continued to be a top priority in 2007.

Product Quality

The term quality when applied to a product, especially from a long-term perspective, is understood to mean primarily the product's reliability. To measure and effectively manage it, we use indicators such as "number of defects per vehicle" and "repair costs" over the time the vehicle is in use.

In 2007, we continued on a monthly basis to gather current information from the service network, focusing primarily on identifying and monitoring trends in vehicle defects and related costs. Knowing of this information allowed a special team composed of representatives from quality, development, production and repair and maintenance services to quickly define corrective and preventive measures for all vehicle models.

Further in the process, these measures were monitored in light of the defined goals, their effectiveness evaluated, and the results submitted to management.

Development Quality
Final vehicle reliability is not only a matter of production and workmanship – the vehicle's design and the technical solutions used in it are also very important.

Right from the earliest development stages, there work so-called simultaneous engineering teams (SET) in which representatives of all functions use various preventive methods to take account of current trends and customer requirements and identify the optimum technical solutions. These conceptual solutions are further revised with the aim of minimising future defects. Also important in this respect is co-operation with J.D. Power, which enables us very early on – in the first prototype phase – to compare the concept with predicted customer requirements and, if deviations are identified, proceed appropriately in further developing the product.

Production Process Quality
The quality of production processes is a major factor determining the quality of the resulting product. The goal of production process quality is to consistently and reliably achieve the planned product quality levels. Reliable quality was achieved in 2007 by inspection the production process from the moment the first design proposal is submitted up until its final implementation. Parameters monitored included, in particular, production flow set-ups, machine and equipment placements, involvement of commensurately qualified employees and use of appropriate control mechanisms.

Production process quality indicators are monitored and assessed on a quarterly basis for all Volkswagen Group plants. Once a year, the Volkswagen Excellence award is given to recognise the plants with the best results. In 2007, two Škoda Auto Group plants won this prestigious award. The Vrchlabí plant received the top ranking and the Kvasiny plant was number two. Out of a total of 36 Volkswagen Group plants in the ranking, Škoda Auto's top performance was also confirmed by fourth place for Mladá Boleslav among automobile plants.

Quality of Repair and Maintenance Services
From the moment we hand over a new vehicle to the customer, through regular service check-ups, to possible repairs during the time the vehicle is in service, quality care is the most important tool for building the customer's brand loyalty. After the actual purchase, a service centre visit is one of the few occasions we have for direct contact with the customer, as well as a unique opportunity to gather information on the customer's satisfaction with our products. The knowledge and experience gained in repair and maintenance services make up a substantial portion of the information in the Company's quality management system.

In 2007, Škoda Auto worked on improving the quality of repair and maintenance services, primarily in the sense of ongoing optimising and fine-tuning. Right from the development phase, vehicle engineering design was confronted directly with the need to effect maintenance and repairs in the future. Also in 2007, work continued on rolling out a globally accessible defects database that will enable quick diagnostics and substantially improve the effectiveness of processes at our service partners.

Certificates
In November 2007, the Company successfully passed an ISO 9001:2000 certification extension audit of its quality management system.

STATE-OF-THE-ART TECHNOLOGIES

Lukáš Majer, Ladislav Frus – posing at the power train assembly line

Using advanced technologies, we produce 700 power trains in 28 modifications every day.

The power train production is organised on the teamwork principle.
We are actively involved in the realisation of new projects in the production.

Václav Kafka, Head of Assembly of the Octavia model

SALES AND MARKETING

More expansion of the sales and service network, penetration of the 100th world market, successful introduction of the new-generation Škoda Fabia and confirmation of sales expectations of the Škoda Roomster all contributed to record sales results, reinforcing the Škoda brand's position worldwide.

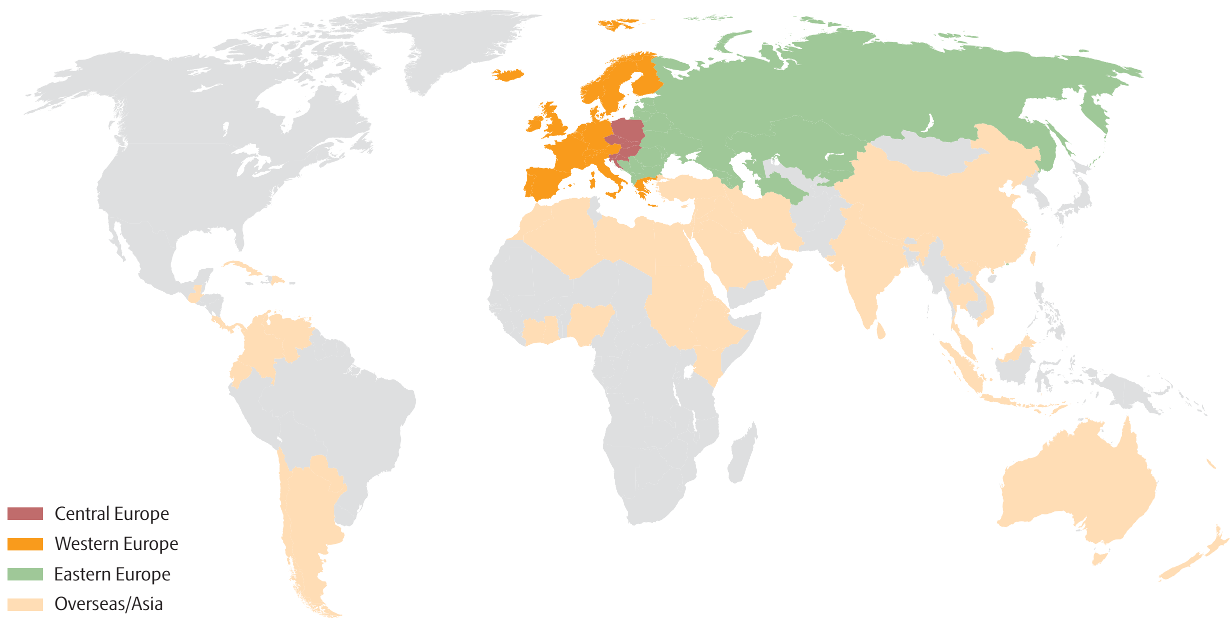
Vehicle Sales by Region

In 2007, the Škoda Auto Group once again posted record vehicle sales volumes in 36 world markets. In total the Group delivered 630,032 vehicles to customers, 14.6% more than in the previous year and at the same time a new sales record in Group history.

Czech Republic
In 2007, the Group resoundingly defended its position as the domestic market leader in both the passenger car and the light commercial vehicle segments. A total of 64,306 vehicles were registered, a slight (1.0%) increase from the previous year. The growth occurred in deliveries to wholesalers, which in the domestic market reached 32.6%.

Central Europe
In addition to the domestic market, the Group maintained its number-one position in the Central Europe region as well. In Poland, deliveries to customers were up 15.4% to a total of 33,210 vehicles (2006: 28,783 vehicles). That corresponded to a market share of 11.2%. Despite a slight drop in sales, Škoda brand vehicles retained their strong top position in the Slovak market. Deliveries in this market in 2007 totalled 19,358 vehicles (2006: 21,380). Sales of Škoda brand vehicles in Hungary were down, in line with a decline in overall sales of passenger cars in that country (14,550 deliveries to customers, i.e. -13.9% from 2006).

Škoda Auto Group Sales Regions



Eastern Europe
The highest relative growth in sales achieved by the Group was in Eastern Europe. Overall, 95,032 vehicles total were delivered in this region, corresponding to a year-on-year increase of 33.9%. Without a doubt, one of our key markets here is Russia, where with 27,535 deliveries we managed to nearly double our sales and achieve a market share of 1.2% (2006: 0.9%). In Romania, 24,015 vehicles were sold (+19.2% from the previous year) and a total of 22,775 Škoda brand vehicles found owners in Ukraine (up 19.8% year-on-year). Positive trends from last year continued in other countries of Eastern Europe as well, e.g. Kazakhstan (1,541 vehicles, i.e. +20.0%), Latvia (2,920 vehicles, i.e. +18.1%), Lithuania (2,290 vehicles, i.e. +14.3%), Bulgaria (3,303 vehicles, i.e. +1.3%) and Estonia (1,519 vehicles, i.e. +43.8%).

Western Europe
Despite an overall recession in Western European markets, the Group managed an 8.4% year-on-year increase in market share in its strongest sales region (market share in 2007 was 2.2%). The total number of vehicles delivered to customers in this region was 327,222 (+8.6% year-on-year). Over 10% sales growth was posted in the following Western European countries: Belgium, Cyprus, France, Iceland, Ireland, Italy, Luxembourg, Malta, Norway and Switzerland. The highest market shares in Western European countries were achieved in Iceland (6.5%), Denmark (5.9%), Austria (5.3%) and Norway (4.5%). The largest number of vehicles registered, a total of 118,692, was once again in Germany – that represents a 0.1% increase from 2006 for a market share of 3.8%. In the UK, 40,430 vehicles were delivered to customers for year-on-year growth of 4.2% (market share in 2007 was 1.7%) and 26,920 vehicles were delivered in Spain, i.e. up 8.2% from 2006 (market share in 2007 was 1.8%).

Overseas/Asia
The enormous growth potential of the Overseas/Asia region was reflected in the Group's sales results. Deliveries to customers in this region in 2007 totalled 65,295 vehicles, up 78.7% from the previous year. For the first time, China was the biggest sales market in this region. Thanks in particular to the official market introduction of locally produced vehicles, a total of 27,325 vehicles were delivered to customers. Other traditionally strong sales territories included India, with 12,170 vehicles sold (+0.5% from 2006), Egypt with 5,085 vehicles sold (+38.1% from 2006) and Turkey with 5,467 vehicles sold (-4.5% from 2006). In late 2007, the Group began selling cars in Australia as well.

Vehicle Sales by Model Line

In 2007, the Group began selling the new-generation Škoda Fabia and launched three new derivatives – Octavia Scout, Roomster Scout and Škoda Praktik. All of these products place maximum emphasis on quality and safety, intelligent functional details and a balanced price/performance ratio.

Škoda Fabia
This model line has been the backbone of the Group's product range for some time. In June 2007, a new generation of this model went on sale in a Hatchback version. Later, at the very end of 2007, the Combi version found its first customers. Based on the customer response and growing sales volumes, we expect the new generation to build on the success of its predecessor, which sold over 1.6 million units during its seven-year life cycle. The total number of Fabia sold in 2007 was somewhat restricted due to the model change, reaching 232,890 (compared to 243,982 in 2006). Of this number, 87,560 units were new-generation Fabia. In the model mix, 59% of the vehicles are Hatchbacks (aggregate total for both generations of the model), 35% are Combi (aggregate of both generations), and 6% are Sedans.

Škoda Roomster
The Škoda Roomster model line fully established itself in the Group's markets in 2007. The very good customer response is indicated by the fact that, in nine European countries, the Škoda Roomster was the number-one seller in its market segment. Starting in March, the offer of this unique model line was expanded with the addition of the Roomster Scout derivate. All told, 62,527 vehicles of this model line were delivered to customers in the first full sales year, which was more than four times higher than in 2006.

The Škoda Praktik was launched in June. Derived from the Škoda Roomster, the Praktik builds on its successful predecessors in the light commercial vehicle segment of the product range. In 2007, the Praktik found its first 4,134 customers.

Škoda Octavia Tour
This model line is a long-running success story and continues to form the foundation of our offer in the lower mid-sized car category. The Škoda Octavia Tour was a hot seller, particularly in Eastern European markets and in India, and its overall result of 72,529 units delivered to customers is 4.6% higher than the previous year's figure.

Škoda Octavia
In 2007, the Škoda Octavia reached its position as the best selling model line. The total number of units delivered to customers was 237,422, up 18.1% from 2006. Demand for the Combi version continued to rise, and its weighting in the model mix reached 44%. The Octavia Scout derivate went successfully on sale in April.

Škoda Superb
Škoda's prestigious limousine, the Superb, held a stable sales position. The total number of Škoda Superb cars delivered to customers in 2007 was 20,530, down slightly from the previous year's level (2006: 20,989 units).

Deliveries to customers, by region

	2005	2006	2007	2007/2006 (%)
Central Europe	139,021	140,797	142,483	+1.2
Eastern Europe	46,692	70,986	95,032	+33.9
Western Europe	276,216	301,343	327,222	+8.6
Overseas/Asia	30,182	36,541	65,295	+78.7
Total	**492,111**	**549,667**	**630,032**	**+14.6**

Deliveries to customers, by model

	2005	2006	2007	2007/2006 (%)
Fabia	119,485	123,170	51,561	-58.1
Fabia Combi (including Praktik)	100,762	107,906	80,799	-25.1
Fabia Sedan	16,451	12,906	12,970	+0.5
Fabia II	0	0	85,998	–
Fabia II Combi	0	0	1,562	–
Fabia, total	**236,698**	**243,982**	**232,890**	**-4.5**
Roomster	**0**	**14,422**	**62,527**	**> 200.0**
Praktik	**0**	**0**	**4,134**	**0.0**
Octavia Tour	48,999	53,783	58,287	+8.4
Octavia Combi Tour	20,802	15,540	14,242	-8.4
Octavia Tour, total	**69,801**	**69,323**	**72,529**	**+4.6**
Octavia	90,042	100,584	131,934	+31.2
Octavia Combi	73,479	100,367	105,488	+5.1
Octavia, total	**163,521**	**200,951**	**237,422**	**+18.1**
Superb	**22,091**	**20,989**	**20,530**	**-2.2**
Total	**492,111**	**549,667**	**630,032**	**+14.6**

Deliveries to customers – largest country markets

	2005	2006	2007	2007/2006 (%)
Germany	90,103	103,931	112,452	+8.2
Czech Republic	65,166	65,171	66,806	+2.5
United Kingdom	38,294	38,801	40,430	+4.2
Poland	27,649	28,783	33,210	+15.4
Russia	7,535	14,835	27,535	+85.6
China	1,196	660	27,325	> 200.0
Spain	21,700	24,869	26,920	+8.2
Romania	14,625	20,153	24,015	+19.2
Ukraine	11,573	19,007	22,775	+19.8
France	15,508	16,754	19,404	+15.8
Slovenia	20,764	21,380	19,358	-9.5
Italy	19,605	16,515	19,103	+15.7
Austria	16,301	16,943	16,012	-5.5
Hungary	18,130	16,892	14,550	-13.9
Belgium	7,911	11,152	14,001	+25.5

THE PRESTIGIOUS "GOLDEN STEERING WHEEL" AWARD WENT TO THE NEW ŠKODA FABIA

Chief Designer Jens Manske presenting the new Škoda Fabia

Jens Manske presenting the new Fabia Combi

The new Škoda Fabia had its world premiere at the Geneva Motor Show in March. It was followed by the new Fabia Combi, premiered at the Frankfurt Motor Show in September.
In the autumn, the new Škoda Fabia won the “Golden Steering Wheel 2007” award from the German newspaper “Bild am Sonntag”, as the best car in its class.

The new Škoda model won the award after beating four competitors in the final round. The jury, comprised of experts and celebrities, rated the cars’ handling, design, spaciousness, price/performance ratio, quality and workmanship.

The Golden Steering Wheel was first awarded by the publisher Axel Springer 32 years ago and has been awarded every year since then. The prize, which goes to the best new car of the year, was won in 1999 by the first-generation Škoda Fabia. The Škoda Octavia won it in 2004.

Reinhard Jung, Chairman of the Board of Directors of Škoda Auto, accepting the “Golden Steering Wheel” award.

Sales of Original Parts and Accessories
Sales of original parts and accessories is an important part of the Group's sales policy, and is a major factor in overall customer satisfaction. Our sales philosophy is based on an offer of top quality products, a broad product range, availability and timeliness of supply. As the Group's offer of models and derivates expands, the range of parts and accessories supplied to world markets grows as well. Revenues from sales of original parts totalled CZK 13.0 billion, i.e. +3.9% from year-on-year.

The offer of original accessories is the Group's reaction to the ever growing segment of customers who demand a higher degree of individuality and, at the same time, compliance with the strict qualitative criteria guaranteed by the manufacturer. Revenues from sales of genuine Škoda accessories reached CZK 2.4 billion (+4.9%).

Sales and Service Network
Expansion into new markets is an integral part of fulfilling the Group's sales and growth strategy. In October 2007, Škoda-brand vehicles went on sale in Australia. With this step, the Group reached the magic number of 100 active markets. As of 2007, the Škoda brand is also newly represented in markets such as Mongolia, Tajikistan, Cameroon, Mali and Togo. Concurrently with the expansion into new markets, the Group also supported the development of sales and service partners in existing markets. In order to build the brand image, 2007 saw continued construction of model showrooms, bringing their total number at year end to 296 (from 227 in 2006). In 2007, an exclusive sales and service network was created in China, where by year end 70 new model showrooms had been opened and another 15 were under construction. As of the end of 2007, there were a total of 4,763 registered sales and service partners worldwide. This represents year-on-year growth of 16%, underlining business partners' increasing interest in the Škoda brand and affirming the success of our chosen strategy.

Thorough implementation of the "Human Touch" programme in 2007 enabled us to improve the quality and level of services provided by the sales and service network. The program's main pillars are willingness and helpfulness of personnel, individual approach to customers, and an individualised customer service model.

One of the key themes in 2007 was the working out of a strategy for sale of used vehicles through the in-house sales and service network. This programme is based on a comprehensive offer of customer services, professional approach, quality guarantee on offered vehicles and related financing services. The programme's implementation and gradual expansion into additional markets will continue in the year to come as well.

Marketing Communication

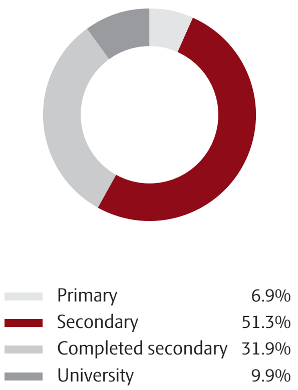
Marketing communication in 2007 focused primarily on the launch of the new-generation Škoda Fabia. One of the key moments was the presentation of this model to nearly 4,500 dealers from 73 countries in Karlovy Vary in February. The new model was introduced to the general public at the Geneva Motor Show in March 2007, and at the same time a campaign was launched with the slogan: "Love At First Drive". In September 2007, the new Škoda Fabia Combi was introduced to the public at the Frankfurt Motor Show. In parallel with the roll-out of new derivates such as the Octavia Scout, Roomster Scout and Škoda Praktik, marketing communication of these vehicles took place. Communication on the Octavia Scout emphasised customers' active lifestyle, Roomster Scout communication focused on style, roominess and perspective and communication of the Škoda Praktik was targeted on entrepreneurs, delivery services, construction contractors, and small and mid-sized businesses.

HUMAN RESOURCES

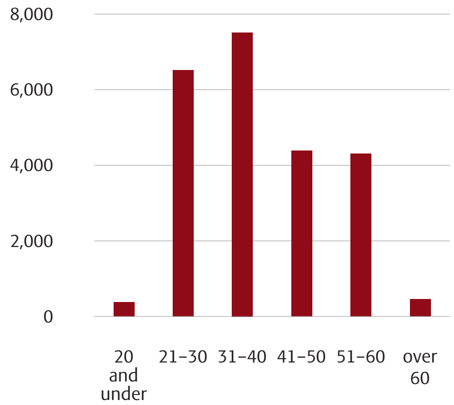
At the end of 2007 the Škoda Auto Group work force numbered 29,141 employees. All of them together helped make the year's accomplishments a reality – new models were launched and customers took delivery of a record number of vehicles.

Employment
As at 31 December 2007, the Group provided employment for 23,559 permanent and 4,194 temporary employees in the Czech Republic. During the year, the Group hired a total of 2,486 new employees in this region. Another 1,388 employees total worked in our subsidiaries in Slovakia, Germany, Poland and India.

Qualification Structure of Company Permanent Employees (%)



Age Structure of Company Permanent Employees



Group Work Force at December 31

	2005	2006	2007	2007/2006 (%)
ŠKODA AUTO a.s. – permanent employees	22,554	23,034	23,559	+2.3
of which: Mladá Boleslav plant	19,602	19,401	19,548	+0.8
Vrchlabí plant	1,216	1,127	1,205	+6.9
Kvasiny plant	1,736	2,506	2,806	+12.0
ŠKODA AUTO a.s. – temporary employees	3,460	3,704	4,194	+13.2
ŠKODA AUTO a.s. – employees total	**26,014**	**26,738**	**27,753**	**+3.8**
Subsidiaries – permanent employees	728	767	902	+17.6
Subsidiaries – temporary employees	0	175	486	+177.7
Subsidiaries – employees total	**728**	**942**	**1,388**	**+47.3**
Škoda Auto Group employees total	**26,742**	**27,680**	**29,141**	**+5.3**

Na Karmeli Education Centre

The most significant event in Human Resources in 2007 was the opening of the Na Karmeli Education Centre in Mladá Boleslav. This project confirmed Škoda Auto's long-term dedication to continually increasing and deepening the qualifications of its employees – both current and future – by operating an in-house university. In addition to facilities for students and employee training activities, the modern campus also houses research and development laboratories that in the future will serve directly for Škoda Auto.

New Human Resources Concept

The human resources management function underwent a transformation in 2007. The objective was closer integration of the entire function with the Company's other functions so as to increase the quality and availability of employee care and, by keeping employees better informed, to improve the effectiveness of all processes in this area.

The most significant change was the implementation of a customer-oriented, process-based model for the function with the executive section, where personnel issues are administrated, separated from conceptual part, where tools and measures are developed to support the Company's human resources work and goals.

One part of the change was the introduction of HR Business Partners as a link between Human Resources Management and other Company functions. This concept is an implementation of the "One face to the customer" principle or, in other words, customer-oriented personnel services. The task of Business Partners is to be partners of managers and employees in their assigned areas, determine their individual needs, identify appropriate personnel tools and assist them in accomplishing their objectives by providing advice on how to effectively manage human resources.

In order to increase employee comfort, the existing employee identity cards were replaced by a modern multifunction chip card which represents a breakthrough in terms of the possibilities it offers in the areas of identification and service integration. In addition to identification upon entering a Company building, employees utilise the card in Company canteens and for other services, as well as for communication over computer networks.

Internal Communication

2007 saw the creation of new information channels, which led to improved internal communications. In the future, the first PC-information islands in individual Škoda Auto plants are to be linked into an enterprise-wide information network and allow employees that do not otherwise have IT access to take advantage of the information on today's corporate intranet and, in the future, on the Employee Portal. We also regularly published and distributed an Employee Weekly in both paper and electronic form, bringing all employees current information. A new tool for facilitating bi-directional communication between management and employees introduced in 2007 is "Chat with the Management", during which a member of the Board of Directors answers questions posed.

In 2007, the Company prepared motivational programmes for employees on the occasion of the launch of the new Fabia and Fabia Combi models.

Investments in Education

At the in-house Secondary Vocational School, over 900 future employees are preparing for their future vocation in 4-year study and 3-year apprenticeship programmes focused primarily on mechanical and electrical engineering. 291 students successfully completed preparations for their future careers and 303 were accepted to begin their studies in the 2007/08 academic year. The school also joined the Enersol project, in which secondary schools compete in the area of environmental projects.

Starting in the 2007/08 academic year, the Škoda Auto University is housed in the modern facilities of the Škoda Auto Na Karmeli Education Centre campus, where it has optimal conditions for operation. A total of 750 students are enrolled in the Bachelor's and Master's programmes, over 100 of which are Škoda Auto employees enrolled in a work-study programme. This year, employees of other Volkswagen Group companies from abroad were among them for the first time. The school uses a motivational programme to attract the best secondary and grammar school graduates.

Support for Employee Growth

The Company sees its employees' potential for growth – intellectually, emotionally and in terms of their approach to co-workers and partners – and helps them to fully develop that potential. As a leading Czech employer, the Company assigns a fundamental role to education, both within the employee's chosen profession and beyond. The planning and realisation of educational activities take place in accordance with the current needs of internal clients. In addition, the Company gives major support to building employees' self-confidence, sense of teamwork, independence and creativity, as well as their approach to change.

The rich offer of education and development programmes is a major motivational and stabilising element in the human resources portfolio. In 2007, the Company invested CZK 183.6 million in this area, which is 8% more than in 2006. In total, 4,005 education activities (+11.2% compared to 2006) were attended by 37,404 employees (+11.8% from 2006). The offer of educational activities has something to support the work of every Company employee. The principal education and development programmes are focused on supporting key employee groups – specialists in development, marketing, controlling and IT, supervisors, maintenance personnel and blue-collar leaders from Production, as well as managers and candidates for all of these positions.

The growth in the number of education programme participants was substantially impacted by the offer of e-learning programmes, which saw major expansion and improvement. With the aim of saving time and increasing the appeal of less popular training topics, 34 e-learning programmes were implemented in the offer as of 31 December 2007.

After successful completion of the Management for the Future training programme, several new major educational projects for management were launched within the framework of the innovated human resources strategy. Their goal was to reinforce people management and make working with human resources more effective. The most important of them is "Key to Your Human Resources".

In the education area, Škoda Auto shares its know-how with its surrounding area as well as through the nationwide project IQ-Auto – whose goal is to inspire secondary school teachers in technical areas and thereby to improve the quality of the future work force – 180 secondary school teachers received training at Škoda Auto in 2007. The Company also supports international training opportunities; for example, one new education project is entitled "Employee Qualification at the New Plant in Kaluga".

One major challenge in the education area is addressed by a project to improve the effectiveness of education operations. The project's objective is more effective use of funds budgeted for education and better utilisation of the know-how gained in employees' work activities.

Social Aspects
In 2007, the Company increased its budget for supporting employee living arrangements and provided interest-free loans of up to CZK 300,000 to 724 employees. Support for mobility also includes a discount on the purchase of a new car or preferential sales of used cars, as well as advantageous leasing terms for employees.

By increasing the Supplemental Pension Insurance contribution, the Company reaffirmed its dedication to social responsibility and at the same time is motivating employees to make responsible decisions regarding their senior years.

The Company nurseries initiative allows employees to receive contributions from the Company to help defray the costs of nursery care in Mladá Boleslav and surrounding areas.

Health Management
Support for employee health is not focused exclusively on their health condition – it also extends to ergonomic measures in vehicle construction and technology design. In 2007 the Company offered employees a programme called Škoda Check-up to support their health. The programme's goal is to work together with employees to maintain their job fitness throughout the entire period of their employment, which will help stabilise the work force in the future.

In the health-care benefits area, we offered free flu vaccinations to all employees (5,101 employees elected to be vaccinated) as well as distributing free Vitamin C. Employees attended preventive programmes in the Company sanatorium and employees from selected work areas went on spa sojourns for reconditioning and rehabilitation.

The 50+ Programme, which is poised for launch, is designed to identify job positions appropriate for older employees to leverage their capabilities and know-how.

Good Ideas Are Appreciated
With the objective of continually improving processes by eliminating waste, and improving conditions and ergonomics in work areas, Continuous Improvement Process (KVP) workshops where held. Implemented measures were rewarded as improvement suggestions through Z.E.B.R.A., a system for supporting employee initiatives focused, in particular, on achieving cost savings, simplifying work processes and procedures, increasing quality, smoothing production flows, and improving work conditions and ergonomics as well as the environment. A newly launched electronic platform, called e-Z.E.B.R.A., simplified the process of filing, administrating and rewarding improvement suggestions or optimising proposals. At PC-information islands located directly on the shop floor, any employee can use e-Z.E.B.R.A. to easily track the processing of his or her improvement proposal.

In 2007, a total of 4,067 employees filed 8,477 proposals. The success rate of the proposals was 71.4% and the benefits of implementing them were estimated at CZK 228 million.

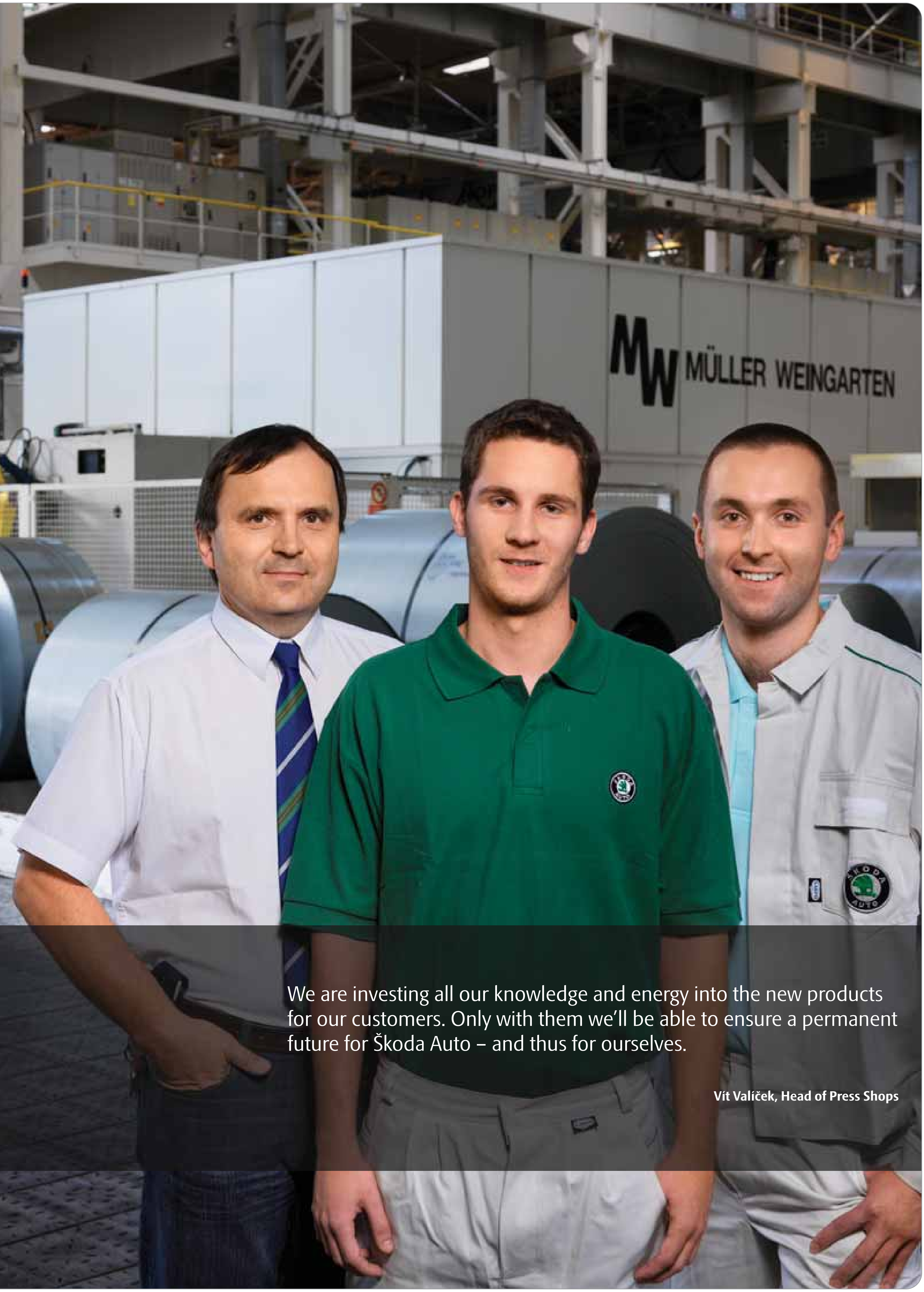
Occupational Safety
Systematic efforts to maintain a high level of employee safety and health is at the forefront of Škoda Auto's interest. This strategy is supported by a document valid for all Volkswagen Group plants – the Volkswagen Group Occupational Safety Policy. For several years in a row now, the Company has had one of the lowest injury rates among European and world automakers – in 2007 the injury index was 2.9 per million man-hours worked in blue-collar professions.

The consistently very high level of occupational safety and health was confirmed by a reduction in the number of work days missed due to injuries compared to 2006.

SKILLS AND PARTNERSHIP

Vladimír Lukáš, Tomáš Novák, Vladimír Kybal – posing in front of coiled metal sheets.
Luděk Lehet – operating a crane in the background.

In 2007 we processed 276,000 tons of steel which would be enough to form a one meter wide path of metal sheets around the globe.



We are investing all our knowledge and energy into the new products for our customers. Only with them we'll be able to ensure a permanent future for Škoda Auto – and thus for ourselves.

Vít Valíček, Head of Press Shops

SPONSORSHIP AND CORPORATE CITIZENSHIP

Ongoing support for social, cultural and sports projects, co-operation with major institutions and charity organisations led to further reinforcement and strengthening of the Company's social responsibility profile.

Most of all, our attention in 2007 continued to be focused on values that embody our long-term vision: e.g., striving to achieve good performance, stamina, will to win and team-oriented thinking.

Sporting Events

In April 2007, the 71st World Ice Hockey Championships were held in Moscow with the traditional support of Škoda Auto as general sponsor and provider of the official vehicle. Škoda has been supporting the world championships non-stop since 1992, and last year our sponsorship contract was extended until 2011. The fact that no other commercial partner has supported a world championship of any sport as general sponsor for longer than we have has now been officially confirmed and approved as a world record by the GUINNESS WORLD RECORDS™ organisation.
In addition to the world championship, the Company also supports the Czech Ice Hockey Extra-League, also as general partner.

Support for international sporting events is a fundamental pillar of the brand's sponsorship endeavours. Since 1992, Škoda Auto has been general partner of the Czech Olympic Committee. Starting in 2004, support for cycling has been another strategic Company activity: the Company became a general partner of the famous Tour de France. However, in so doing we have not forgotten domestic cycling – for example, we support the national cyclocross team.

In motorsport, the Škoda brand's involvement in the world championships continued through support for the private team of Josef Kopecký.

Arts, Culture and Social Events
Škoda Auto supports top arts performances that represent Czech culture. Our traditional partners in this area include the Czech Philharmonic and the National Theatre.

The Company also supports selected music festivals outside of Prague such as, for example, "Smetana's Litomyšl".

In 2007, Škoda Auto continued to co-operate with the International Film Festival for Children and Youth in Zlín as general partner and provider of the festival's official vehicle. This traditional and successful co-operation dates back to 2002.

Škoda Auto also built on close co-operation with the Partnership Foundation and became general partner of the sixth annual "Cesty městy" (City Paths) competition that promotes the implementation of highly effective traffic management solutions for Czech cities and towns.

As early as 2004, Škoda Auto revived the tradition of supplying cars to the Head of State. The Office of the President utilised Laurin & Klement and Škoda vehicles in the years 1918–1963. In the interests of preserving the special Presidential limousine for future generations, Škoda Auto and the Office of the President agreed last year for the first new-age Škoda Superb, used by President of the Republic Václav Klaus in the years 2004–06, to be placed in the collection of the National Technical Museum in Prague.

In 2007, Škoda Auto also became an official partner and provider of the official automobile for the 14th meeting of Central European Presidents in Brno.

Social and Humanitarian Involvement
Škoda Auto supports a number of projects in the social and charity areas and assists handicapped persons in their efforts to live full lives.

For years now, Škoda Auto has been helping Centrum Paraple by providing three manually operated cars that help patients return to an active lifestyle.

Other projects supported by the Company are, for example, the Forum 2000 Foundation, the Foundation for the Český Krumlov Castle Baroque Theatre, ADRA and the Czech Television foundation People In Need.

Škoda Auto continued in its long-term "Health-care Clown" project, a non-profit organisation that organises visits by professional clowns to seriously ill children all over the Czech Republic. Its slogan is "Laughter – the Best Medicine".

We also have a long tradition of co-operating with the Cancer Research Foundation, the Czech Paralympic Committee and the Oncological Care Centre.

Through participation in the Traffic Rules Learning Playground project, Škoda Auto supported the operation of the only such facility in the Mladá Boleslav area as well as the largest playground of its kind in Náchod.

An extraordinary event in 2007 was the gala opening of the Na Karmeli Education Centre in Mladá Boleslav. With support from Škoda Auto, Na Karmeli has been transformed into a unique part of the city centre with a university campus and specialised laboratories with capacity for 800 students.

THE ENVIRONMENT

The introduction of a unique technology for loading finished vehicles in the Kvasiny plant, environmental clean-up work in other Company facilities and the introduction of an environment-friendly way to protect new car bodies – those were the concrete projects of 2007. These, together with a tried, tested and effective environmental management system, rational utilisation of natural resources and the selection of environmentally appropriate technologies contributed to the favourable development of the Company's environmental indicators over time.

Škoda Auto has a long-term programme of minimising the environmental impact of its operations. In 2007, the Company continued to meet all statutory requirements as well as all its obligations under the Škoda Auto Corporate Policy. In this manner, we contributed to fulfilment of sustainable development principles and demonstrated our considerate and sensitive approach to life and nature. This was documented by the fact that we obtained ISO 14001:2004 certification for our Environmental Management System for another three-year period in an extension audit held in late 2007.

In 2007, the established system of environmental protection was impacted primarily by increasing production capacities, legislative amendments and application of Volkswagen Group environmental guidelines. In this respect, the Company:

- obtained consenting opinions under the Act on Environmental Impact Assessment for increasing the capacity of its paint shop in Mladá Boleslav, for expanding the Octavia assembly hall in Mladá Boleslav, and for planned improvements to the Vrchlabí plant,
- obtained revisions to integrated permits for paint shop equipment in Mladá Boleslav and Kvasiny and for foundry equipment in Mladá Boleslav. This confirmed that the new equipment installed to increase vehicle production is the best available technology in terms of environmental protection,
- continued clean-up work at the Mladá Boleslav plant by vacating production floor areas to make way for renovation – this included mechanical machining halls, the press shop and body shop; the final phase will be installation of floors secured against seepage of harmful substances into the underlying soil,
- in the Kvasiny Plant, put into operation new machinery for loading finished vehicles on double-decker rail cars with a unique rail car shifting system. This will allow us to ship most of the vehicles produced by rail instead of semi-trucks, thereby substantially reducing air emissions and noise pollution,
- introduced a more environmentally friendly way of protecting finished car bodies during transport to the customer. The prior method of using water-soluble wax which was removed at the point of sale using preparations containing organic solvents, has been replaced with adhesive film. The film is not hazardous and the resulting waste is recyclable,
- under an amendment to the Waste Act, arranged for free-of-charge disposal of our products at the end of their life cycle through a contractual partner, the Callparts company.

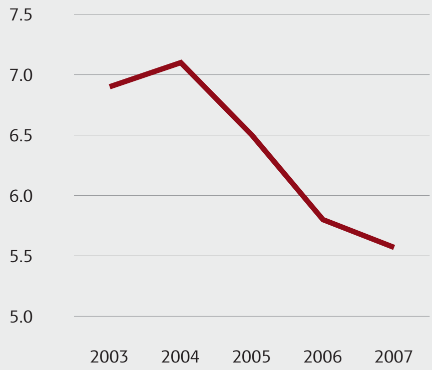
Despite a tripling of the Company's vehicle production volume between 1991 and 2007, there was no increase in environmental burdens (such as air emissions) in absolute terms, and water consumption declined significantly.

Air Protection

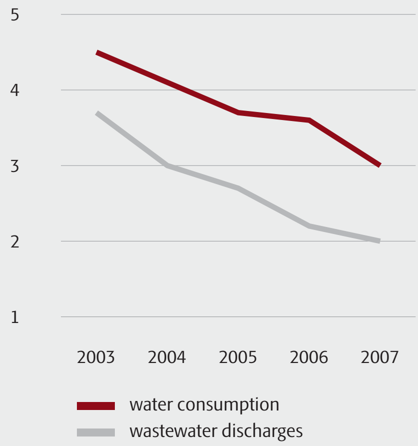
In 2007, the Company operated 287 sources of air pollution, all of which were in compliance with statutory emission limits. The largest sources of emissions are industrial paint shops of car bodies and power plants, which together account for 95.6% of the Company's emissions.

ŠKODA AUTO'S SENSE OF ENVIRONMENTAL RESPONSIBILITY IS EVIDENT IN THE DEVELOPMENT OF SELECTED ENVIRONMENTAL INDICATORS OVER TIME

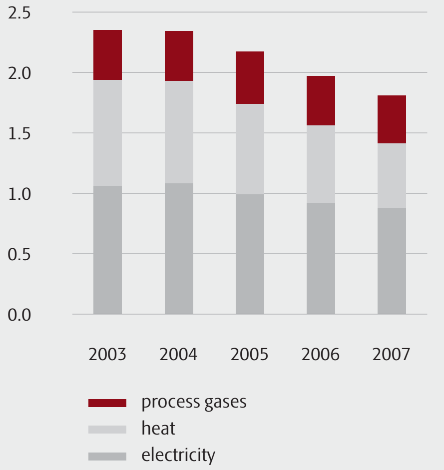
Air Emissions Per Vehicle Produced (kg)



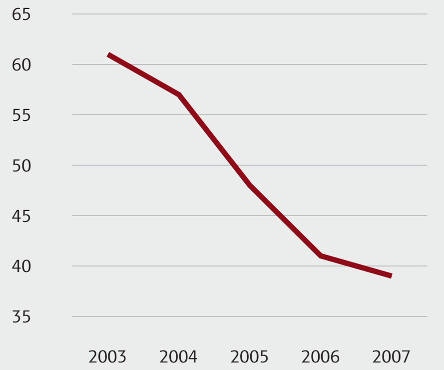
Water Consumption and Wastewater Discharges Per Vehicle Produced (m^3)



Energy Consumed Per Vehicle Produced (MWh)



Waste Generated Per Vehicle Produced (kg)



In the past few years, the Company has successfully reduced air emissions not only on a per-vehicle basis (see Graph on bookmark) but in absolute terms as well. From 1997 up until 2007, emission levels fell by over 55% thanks to the use of modern technologies in production. The cutting-edge paint shops in Mladá Boleslav and Kvasiny use mostly water soluble paints. Emissions of volatile organic substances are mixed with natural gas and fired in the heat plant to produce thermal energy for heating. Upgrades of power plants and foundry operations have helped bring about a substantial drop in emissions of sulphur dioxide, nitrogen dioxide, solids and carbon monoxide.

While vehicle production volumes have increased, for several years now we have been implementing rationalisation measures that have kept overall energy consumption flat, thereby not burdening the environment with additional emissions, including emissions of greenhouse gases, that would otherwise have resulted from increased production. In 2006 and 2007, per vehicle energy consumption fell to below 2 MWh (see Graph on bookmark).

Soil and Groundwater Protection, Water Management

The Company has fully secured its operation against the occurrence of environmental damage and is successfully correcting the consequences of insensitive industrial manufacturing processes used prior to the merger with Volkswagen Group.

Substances that pose a threat to water resources are only handled in facilities and infrastructure which has sufficient technical measures in place, for which emergency plans have been adopted, and which are appropriately equipped to deal with possible leaks.

By the end of 2007, clean-up had been completed on over 80% of environmental damage requiring clean-up work, at a total cost of CZK 559 million.

One of the Company's fundamental tasks is to keep water consumption to the minimum level necessary and return water to the natural cycle with a minimum environmental burden. The success of measures taken to implement this task is demonstrated by per vehicle water consumption and wastewater discharge figures (see Graph on bookmark) and, further, by the fact that discharged wastewater is much cleaner than the prescribed limits call for, thanks to newly introduced technologies.

Waste Management

In the waste area, the Company implements a long-standing strategy focused primarily on preventing waste from arising, reducing the volume and hazardous characteristics of waste that is generated, giving preference to reuse and only if there is no other option, disposing of waste in the manner that has the least environmental impact.

The strategy's effectiveness can be documented by figures on waste volume (not including metals) per vehicle produced. While in 1997 this indicator stood at 84 kg/vehicle, in 2007 it was just 39 kg/vehicle (see Graph on bookmark). Of the total amount of waste generated in 2007, only 10.5% ended up in landfills and incinerators. Most of the waste materials, including metals, was recycled – i.e. glass, paper, waste oils, solvents, cables, toner cartridges, foundry sand, plastics and plastic film. In 2007, special attention was paid to separating waste materials, reusing materials from non-returnable packaging and office paper.

Products and the Environment

The Company also fulfils the principles of sustainable development through its products, both by appropriately selecting recyclable production materials and by utilising high-performance production technology. Inclusion of modern engines in the production vehicles helps on the one hand to reduce local emissions (including greenhouse gas emissions), and on the other it substantially reduces our dependence on limited crude oil reserves. In petrol engines, we use a modern TSI technology that combines direct fuel injection with a turbocharger, inspired by the successful TDI concept in diesel engines. Compared to conventional engines, the TSI engines achieve 20% better fuel efficiency when driving style is kept constant. Another example of high-performance drive technology is the DSG gear-clutch gearbox, which features 15% less fuel consumption at a substantially higher degree of efficiency compared to conventional automatic transmission with a torque convertor.

Under the GreenLine name, Škoda Auto introduced special environmentally friendly vehicle models in 2007, with substantially reduced greenhouse gas (CO_2) emissions parameters and optimised fuel consumption. The Company is also working intensively to develop alternative engines. Late in the year, the FlexFuel concept went into series production.

Capital Investment

A total of CZK 256 million was expended in 2007 for preventive environmental measures in the course of new construction and upgrades. Since 1991, total investment in environmentally-related projects has reached CZK 9.76 billion.

GREAT DETERMINATION

Vladimír Gabriel, Jiří Sucharda – posing at the Octavia model assembly line.

We produce 700 Octavia cars a day in an assembly hall of 36,000 sqm.
In a clock cycle of 1.8 minutes, up to 1,900 parts out of 8,900 variations are mounted on a vehicle.

Technical skills and professional honour are our prerequisites, satisfied customers are our future.

Václav Kafka, Head of Assembly of the Octavia model

WHERE WE'RE HEADED

Only four automakers in the world can boast over 100 years of unbroken manufacturing tradition. Škoda Auto is one of them. For us, this tradition both motivates us and symbolises our commitment.

We're not letting up in our search for new solutions. We're developing and offering products that remain faithful to the unmistakable style typical of Škoda brand models. Our generous offering full of imaginative ideas and interior space solutions, including cargo space, in keeping with "Simply Clever", the price/performance ratio of our vehicles while upholding a high standard of quality and environmental consideration – those are the typical characteristics and features that our customers have come to expect from us as a matter of course.

We walk in the footsteps of our founders Laurin and Klement and in the spirit of their heritage: "Only the best we can do is good enough for our customers". We want to thrill our customers so that they keep coming back to the Škoda brand with confidence.

Strategy

"Strategy 2018" is an integral part of the planning process both for Škoda Auto Group and for the entire Volkswagen Group. It is the cornerstone for fulfilling the Group's vision and goals, as well as for maintaining its long-term prosperity and competitiveness. The strategy lays out the main points of the Company's philosophy, quality policy, relations with employees and interest groups, as well as defining the basic competencies, contours and identity of the Škoda brand and its position in the market. It also stipulates the Group's primary goals for the period until 2018 in all strategic areas, including regional and international production, markets, finance, quality and social responsibility.

Markets and Products

The strategic goal for markets is to further reinforce our positions in Western Europe while at the same time retaining our dominant position in Central Europe. As part of the "Go East" strategy, our priority is to penetrate the dynamic emerging markets of Eastern Europe and Asia, through international projects and assembly plants, among others.

The strategic goal in the product area is to launch one new model every year. In addition to upgrades and development of successors to existing models, the means for fulfilling this goal will include more expansion of the product portfolio, so that it includes models in high-potential market segments where we are not yet represented. The strategy also includes minimising environmental impacts of our products, especially in terms of exhaust gas emissions and noise.

Finance

Here the strategic goal is to ensure sustained growth in the shareholder value of the Group's companies. The means for reaching this goal will be growth in earnings and profitability, with attention to business risk and the performance of comparable competitors. As its financial goal, the Group has set maintaining return on sales and return on capital employed at their current levels over the long term.

Another prerequisite for ensuring sustainable development is commensurate investment combined with sufficient capital renewal. Our main goal in investing is to finance our investments from capital generated inside the Group.

Our operations will focus on maintaining financial stability, growing performance with regard to the efficiency of all processes and continually optimising costs, both direct and indirect. Our priority will be not only the level of the performance result, but most of all its quality, with the aim of building the Company's long-term prosperity.

Quality

The strategic objective in this area is to achieve top quality not only of vehicles but also of all services we provide, so that they satisfy the ever-increasing demands and needs of our customers. Related to this is the achievement of top quality of all internal processes – from product development to sales and aftersale service.

In the years to come, the core activities will focus on medium and long-term customer satisfaction with Škoda-brand products.

Social Responsibility

Here the strategic goal is to maintain the financial, environmental and social areas in a long-term balance as a fundamental precondition for sustainable development.

Human Resources
The strategic objectives in human resources ensue from forecasts of a growing shortage of qualified personnel that will be brought about by negative demographic developments, low unemployment and increasing competition in the labour market. The emphasis in human resources planning is on arriving at realistic estimates for the purposes of developing new plants and projects, while continuing to optimise costs, both direct and indirect. In recruiting, emphasis will be placed on hiring new personnel in the right structure, qualification and quality with maximum utilisation of in-house human resources. In order to stabilise our human resources and promote career development, our focus will be on helping employees adapt, stabilising the work force in the regions surrounding our plants and building employees' loyalty to the Company.

Our social policy goal is to care for our employees comprehensively and to create a work environment that supports employee motivation, performance and high creativity.

The Environment
The strategic goal is to minimise negative environmental impacts of our production and commercial operations. The goal is achieved by making products that comply with demanding environmental standards throughout all phases of their life cycle. The Group will continue to put high demands on its contractual partners, especially in the areas of waste management and air and water protection.

Public Relations and Corporate Citizenship
The strategic goal is to be a long-term contributor to increasing the standard of living in regions and countries where the Group has direct operations. This goal will be met by creating new, often highly qualified job positions, providing long-term support for education opportunities for the general public in our in-house educational facilities, support for regional culture, sports and other public-benefit activities. Another integral part of this strategy is the expansion of our research and development operations, which will help increase the country's international prestige.

Short-term and Medium-term Outlook

Economic Forecast

The Group's plans are based on the assumption that world economic growth will slow somewhat in 2008. High prices of oil and raw materials in general will continue to put a damper on growth. Rapid growth is expected to continue in Asia in general, and China and India in particular. The economies of Central and Eastern Europe are also expected to reaffirm their growth potential.

Czech Republic
In 2008, the Czech economy will once again grow in line with its long-term potential. A slight slowing of pace is expected, however with real GDP growth to reach levels of around 5%. Thanks to the creation of new jobs, unemployment is expected to fall to 5.9%. Approval of the tax reform bill will result in a 1.5% rise in inflation, bringing the average inflation rate for the year to 5.6%. The trade surplus will rise to CZK 95 billion at year end, up from last year's level of CZK 86 billion. The Czech Koruna's exchange rate against the Euro is expected to remain firm at its late 2007 level, i.e. 26.80. The U.S. Dollar, on the other hand, is expected to strengthen toward a level of 19.10 CZK/USD.

Europe
Assumptions used in planning are based on an approximate 0.8% decline in the pace of growth of Western European economies. GDP growth is to reach 2%. Due to flagging exports and only slightly growing domestic demand, the German economy will grow by less than 2%. Economies will continue to grow in Central and Eastern Europe, but at a pace approximately 0.8% lower than last year. GDP growth in this region is expected to reach 5.5%.

Asia
In 2008 the Chinese economy will continue to grow at a double-digit pace. The Indian economy, too, is anticipated to continue at its current pace for year-on-year growth of around 9%.

Automotive Markets Forecast

World car markets will exhibit varying behaviour in 2008. While the markets in Russia, India and China are expected to post double-digit growth, the forecasts used for our planning in Western European markets call for a slight drop in demand in 2008.

Czech Republic
In the Czech Republic, used car imports will continue to grow. Despite this major limiting factor, 2008 should bring a continuation of the growth trend in demand for new passenger cars, with growth of up to 6%.

Europe
According to the latest forecast, demand for new passenger cars in Western Europe is expected to be flat. Overall market growth is expected in Finland (+11%), Germany (+5%), Ireland (+2%) and France (+1%), while the opposite is expected in Italy (-9%) and the UK (-2%).

In Central Europe, we expect 2008 to bring moderate growth in the overall new passenger car market, driven by Poland (+2%) and Slovakia (+2%).

In Eastern Europe the pronounced growth trend of past years will continue. This development will be driven primarily by growth in Russia (+9%) and the Baltics (+13%).

Asia/Overseas
In 2008, continued dynamic growth in Asian automotive markets is expected, and especially so in China (+16%). Demand for passenger cars in Australia is forecasted at 830 thousand units, slightly above the past year's figure.

Overview of Planned Activities and Goals for 2008–2010

Technical Development, New Products
In 2008, the Group's strategy of unveiling one new model every year will be fulfilled by the new-generation Škoda Superb. The Škoda brand flagship will be officially introduced to the public in March at the Geneva Motor Show.

Beyond that, development activities will also focus on models in market segments where we are not represented yet. In particular, intensive development work will continue on an automobile in the SUV (Sports Utility Vehicle) category.

Construction will also continue on the new technology centre, with opening planned for 2009.

Production and Logistics

The main focus in production and logistics in 2008 will be on production launch of the new-generation Škoda Superb. In accordance with our efforts to help reduce emissions and improve fuel efficiency, we will begin producing the models Škoda Fabia GreenLine and Škoda Superb GreenLine in the first half of the same year.

In line with our expansion strategy, international projects will be a major focus area. The second half of 2008 will see the Škoda Fabia enter production in Shanghai, China, under license. In co-operation with the Volkswagen Group, the number of locally assembled vehicles in the new plant in Kaluga, Russia, will continue to grow. At the same time, further construction work on this plant will continue at an intense pace.

Markets, Sales and Marketing

Our activities in established European markets in 2008 will focus on maintaining and further growing our current market shares, among other strategies by further developing the sales and service network. In markets with high growth potential (China, India, Russia), where local production capacities exist, we will continue to focus on building market share and, to that end, on introducing new products.

In 2008, the Group will endeavour to reinforce the growth trend in deliveries to customers established in the past few years by continuing to take an individualized approach to meeting customer needs as well as by meeting Škoda standards in the entire sales and service network.

The medium term goal is to exceed 1 million vehicles delivered to customers.

Human Resources

In order to increase Škoda Auto's attractiveness for existing and future employees alike, in spring 2008 we will launch a new incentive programme entitled "Škoda – That's US".

The programme's objective will be to determine the motivation level in various areas of the Company, propose measures to improve it, and implement those measures completely.

Another step planned for 2008 to keep employees better informed is the launch of the new Employee Portal. This system will also be used as a gateway to the new system for accessing employee benefits, which the Company intends to adapt more to employees' individual needs.

Finance

With regard to the forecasted trend in deliveries to customers and the ongoing quality improvements in all enterprise processes, the Group expects to see further growth in its financial performance in 2008. The operating result is to reach CZK 20 billion for the first time. Reaching this goal is closely tied to the Czech Koruna's performance against other currencies, in particular the Euro.

For the three-year period (2008 to 2010), a total of CZK 45 billion in capital investment is planned. In addition to investments in property, plant and equipment this amount also includes incremental increases in capitalised R&D expenditures. Investments in property, plant and equipment will total CZK 38 billion for a stable investment ratio of 4.5%. A substantial portion of the tangible investment total, CZK 24 billion, will go on further upgrades and equipment renewal and on expansion of the product range. Another CZK 14 billion in planned investments is not directly product-related; it will be used to create conditions for planned production levels and to achieve qualitative goals in the press body and paint shops and in final assembly operations. Beyond the areas mentioned, additional investment areas will be technical development, information technologies and aftersale services.

In accordance with our long-term strategy, capital investment will be financed from capital generated internally. The operating cash flow goal for the three-year period mentioned above is CZK 85 billion. This plan figure should ensure sufficient coverage of the Group's capital expenditure needs.

The Environment

In the years to come, environmental initiatives will continue to focus on mitigating impact on soil and water, use of environmentally friendly materials, recycling and reusing waste materials, choosing production processes that are considerate to the environment and natural resources, and maximum conservation of non-renewable natural resources. The Company's tried, proven and effective system of environmental protection and strict application of its principles right from the initial, preparatory phases of projects for new technology and products represent a guarantee that the environmental impact of Škoda Auto's operations will be minimised even as vehicle production increases in the years to come.

Remark: The chapter "Where We're Headed" contains a forecast of Škoda Auto Group's future development. It was prepared on the basis of then-current estimates of the future performance of individual country economies, automotive markets, exchange rates and prices of various commodities, as well as of the automotive industry in general. There is a certain degree of risk that the forecasts and predicted trends used can differ from actual future developments.

FINANCIAL SECTION

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AUDITOR'S REPORT ON THE ANNUAL REPORT AND THE REPORT ON RELATIONS

Independent Auditor's Report to the Shareholder of ŠKODA AUTO a.s.

Report on the Annual Report
We have audited the annual report of ŠKODA AUTO a.s. ("the Company") for consistency with the consolidated financial statements for the year ended 31 December 2007 which are included in this annual report on pages 81 to 122 and with the separate financial statements for the year ended 31 December 2007 which are included in this Annual Report of the Company on pages 124 to 163 (together the "financial statements"). The Board of Directors is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2007 is consistent, in all material respects, with the financial statements referred to above.

Report on review of the Report on Relations
In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2007 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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

8 February 2008

PricewaterhouseCoopers Audit s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž	**Pavel Kulhavý**
Partner	Auditor, Licence No. 1538

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Translation note
This version of our report is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report to the Shareholder of ŠKODA AUTO a.s.

We have audited the accompanying consolidated financial statements of ŠKODA AUTO a.s. ("the Company") and its subsidiaries and associate (together, "the Group"), which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes, including a summary of significant accounting policies. Details of the Company are disclosed in note 1 to these consolidated financial statements.

Board of Directors' Responsibility for the Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

5 February 2008

PricewaterhouseCoopers Audit s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	2007	2006
Sales	**17**	**221,967**	**203,659**
Cost of goods sold		185,474	175,636
Gross profit		**36,493**	**28,023**
Distribution expenses		13,201	11,903
Administrative expenses		4,207	3,587
Other operating income	18	4,368	4,747
Other operating expenses	19	3,669	2,678
Operating profit		**19,784**	**14,602**
Financial income		1,111	523
Financial expenses		940	927
Financial result	**20**	**171**	**(404)**
Share on loss of associates		(95)	–
Profit before income tax		**19,860**	**14,198**
Income tax expense	21	3,878	3,136
Profit for the year		**15,982**	**11,062**
Attributable to:			
Equity holder of the Company		15,939	11,051
Minority interests		43	11
		15,982	**11,062**

The notes on pages 85 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31.12.2007 (CZK MILLION)

ASSETS	**Note**	**31.12.2007**	**31.12.2006**
Intangible assets	5	14,039	13,351
Property, plant and equipment	6	41,197	39,809
Investment in associate	7	390	187
Other receivables and financial assets	8	798	609
Deferred tax assets	14	343	336
Non-current assets		**56,767**	**54,292**
Inventories	9	13,543	12,248
Trade receivables	8	7,874	5,506
Prepaid income tax	8	601	449
Other receivables and financial assets	8	30,798	28,205
Cash	10	6,198	4,512
Current assets		**59,014**	**50,920**
TOTAL ASSETS		**115,781**	**105,212**

LIABILITIES	**Note**	**31.12.2007**	**31.12.2006**
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Reserves	12	48,631	39,961
Equity without minority interests		**66,918**	**58,248**
Minority interests		116	73
Equity		**67,034**	**58,321**
Non-current financial liabilities	13	1,997	1,995
Other non-current liabilities	13	1,136	891
Deferred tax liabilities	14	1,790	2,528
Other tax liabilities	13	522	398
Non-current provisions	15	8,495	6,542
Non-current liabilities		**13,940**	**12,354**
Current financial liabilities	13	2,390	5,331
Trade payables	13	21,540	18,719
Other current liabilities	13	3,268	3,545
Income tax liabilities	13	2,434	1,945
Current provisions	15	5,175	4,997
Current liabilities		**34,807**	**34,537**
TOTAL LIABILITIES		**115,781**	**105,212**

The notes on pages 85 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Equity attributable to shareholder of ŠKODA AUTO a.s.	Minority interests	Total equity
Balance at 1.1.2006		**16,709**	**1,578**	**27,995**	**400**	**46,682**	**75**	**46,757**
Profit for the year		–	–	11,051	–	**11,051**	11	**11,062**
Exchange differences		–	–	(9)	(64)	**(73)**	–	**(73)**
Financial derivatives**	8,13	–	–	–	588	**588**	–	**588**
Total income and expenses for the period		–	–	11,042	524	**11,566**	11	**11,577**
Dividends paid		–	–	–	–	**–**	(13)	**(13)**
Transfer to statutory reserve fund		–	–	(368)	368	**–**	–	**–**
Balance at 31.12.2006		**16,709**	**1,578**	**38,669**	**1,292**	**58,248**	**73**	**58,321**
Balance at 1.1.2007		**16,709**	**1,578**	**38,669**	**1,292**	**58,248**	**73**	**58,321**
Profit for the year		–	–	15,939	–	**15,939**	43	**15,982**
Exchange differences		–	–	–	(34)	**(34)**	–	**(34)**
Financial derivatives**	8,13	–	–	–	1,186	**1,186**	–	**1,186**
Total income and expenses for the period		**–**	**–**	**15,939**	**1,152**	**17,091**	**43**	**17,134**
Dividends paid		–	–	(8,430)	–	**(8,430)**	–	**(8,430)**
Transfer to statutory reserve fund		–	–	(544)	544	**–**	–	**–**
Share option scheme	26	–	–	–	9	**9**	–	**9**
Balance at 31.12.2007		**16,709**	**1,578**	**45,634**	**2,997**	**66,918**	**116**	**67,034**

* Explanatory notes on other reserves are presented in Note 12.
** Explanatory notes on cash flow hedges are presented in Note 2.7.3

The notes on pages 85 to 122 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	2007	2006
Cash and cash equivalents at 1 January	**16**	**28,483**	**12,376**
Profit before tax		19,860	14,198
Depreciation and impairment of non-current assets	5, 6	11,802	12,614
Change in provisions	15	2,131	1,981
(Gain)/loss on disposal of non-current assets		(12)	28
Net interest (income)/expense		(126)	261
Change in inventories	9	(1,295)	22
Change in receivables		(2,937)	325
Change in liabilities		3,103	896
Income tax paid from operating activities		(4,401)	(2,829)
Interest paid		(906)	(709)
Interest received		1,150	633
Share on loss of associate		95	–
Other gains from investing activities		(19)	–
Other adjustments for non-cash transaction		9	–
Cash flows from operating activities		**28,454**	**27,420**
Purchases of non-current assets	5, 6	(10,603)	(8,256)
Additions to capitalised development costs	5	(3,097)	(2,710)
Proceeds from sale of financial investments	7	(298)	(188)
Proceeds from sale of non-current assets		41	64
Proceeds from other investing activities		172	–
Cash flows from investing activities		**(13,785)**	**(11,090)**
Cash flows netto (operating and investing activities)		14,669	16,330
Dividends paid		(8,430)	(13)
Change in liabilities from factoring	13	43	533
Repayment of bonds	13	(3,000)	–
Repayment of other borrowings		–	(676)
Cash flows from financing activities		**(11,387)**	**(156)**
Net change in cash and cash equivalents		**3,282**	**16,174**
Exchange gains/(losses) on cash and cash equivalents		**25**	**(67)**
Cash and cash equivalents at 31 December	**16**	**31,790**	**28,483**

The notes on pages 85 to 122 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2007

Company information

Foundation and company enterprises:
ŠKODA AUTO a. s. was established as a legal entity on 20 November 1990. The Company's principal business activities are the development, production and sale of vehicles and related accessories.

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

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

Organisational structure of the Company is divided into the following main areas:
– Chairman of the Board's Department;
– Technical development;
– Production and logistic;
– Sales and marketing;
– Commercial affairs; and
– Human resource management.

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 included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG ("Volkswagen Group"), with a registered office in Wolfsburg, the Federal Republic of Germany (for detail see Note 29).

Translation note
This version of the financial statements is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of these financial statements takes precedence over this translation.

1. Summary of significant accounting policies and principles

1.1 Summary statement

The consolidated financial statements of ŠKODA AUTO a. s. ("the Company"), its subsidiaries and associate (together "the Group") for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2007.

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beginning on or after 1 January 2007 have been adopted by the European Union through the endorsement procedure established by the European Commission. As at 31 December 2007, the Council of the European Union has not endorsed the following interpretations: IFRIC 12, IFRIC 13, IFRIC 14 and amended or revised standards: IFRS 2, IFRS 3, IAS 1, IAS 23, IAS 27, IAS 28, IAS 31 and IAS 32, which are not yet effective.

The Company, as an issuer of listed bonds, is obliged under paragraph 19 (9) of Act No.563/1991 on Accounting to prepare consolidated financial statements and an annual report in accordance with IFRS.

1.2 Adoption of new standards, amendments and interpretations to existing standards

1.2.1 New standards, amendments and interpretations to existing standards mandatory for the 2007 accounting period
The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2007 do not have a material impact or are not relevant to the Group's operations:
– IFRS 4 – Amendment – Insurance Contracts (effective date 1 March 2006);
– IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date 1 March 2006);
– IFRIC 8 – Scope of IFRS 2 (effective date 1 May 2006);
– IFRIC 9 – Reassessment of Embedded Derivatives (effective date 1 June 2006);
– IFRIC 10 – Interim Financial Reporting and Impairment (effective date 1 November 2006).

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2007 were fully adopted by the Group:
– IAS 1 – Presentation of Financial Statements: Capital disclosure (effective date 1 January 2007);
– IFRS 7 – Financial instruments: Disclosures (effective date 1 January 2007).

The adoption of the standards mentioned above did not have a material impact on measurement and disclosure methods. However, the implementation of IFRS 7 has resulted in additional disclosure requirements.

The following standards, amendments and interpretations mandatory for accounting periods beginning after 1 January 2007 were early adopted by the Group:
– IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective date 1 March 2007).

In connection with this interpretation the Statement of Changes in Equity was extended by the Share option fund created in line with this interpretation against the payroll costs. Adoption of this interpretation does not have a material impact on the financial statements.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective
The following standards, amendments and interpretations will be relevant for the Group but were not early adopted by the Group:
– IFRS 8 – Operating segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is not relevant to the Group since it does not have more than one operating segments;
– IAS 1 – Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances. The amendments to IAS 1 have not yet been endorsed by the European Union.

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

– IAS 23 – Amendment – Borrowing costs (effective date 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment to IAS 23 is not expected to have material impact on Group's operations. The amendments to IAS 23 have not yet been endorsed by the European Union;
– IAS 27 – Amendment – Consolidated and Separate Financial Statements (effective date 1 July 2009). The amendments to IAS 27 have not yet been endorsed by the European Union;
– IAS 28 – Amendment – Investments in Associates (effective date 1 July 2009);
– IAS 31 – Amendment– Interests in Joint Ventures (effective date 1 July 2009);
– IAS 32 – Amendment – Financial Instruments: Presentation (effective date 1 January 2009);
– IFRIC 4 – Determining whether an Arrangement contains a Lease (Amendment of §4(b)) (effective date 1 January 2008);
– IFRIC 12 – Service Concession Arrangements (effective date 1 January 2008);
– IFRIC 13 – Customer Loyalty Programmes (effective date 1 July 2008);
– IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective date 1 January 2008);
– IFRS 2 – Amendment – Share-based Payments (effective date 1 January 2009);
– IFRS 3 – Amendment – Business Combinations (effective date 1 July 2009). The revised IFRS 3 reinforces the existing IFRS 3 model but remedies problems that have emerged in its application. The project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The objective was to develop a single high quality accounting standard that would ensure that the accounting for business combinations is the same whether an entity is applying International Financial Reporting Standards (IFRSs) or US generally accepted accounting principles (GAAP). The amendments to IFRS 3 have not yet been endorsed by the European Union.

1.3 Comparative amounts

1.3.1 Comparative amounts subject to reclassification

In connection with implementation of IFRS 7, the Group reviewed the presentation and changed the classification of the following items in the balance sheet and income statement:

The positive fair value of the hedging foreign currency forward contract has been reclassified in the comparative balance sheet as at 31 December 2006 in the amount of CZK 222 million from Other Receivables and Financial Assets presented within Current Assets to Other Receivables and Financials Assets presented within Non-current Assets.

The negative fair value of the hedging foreign currency forward contracts and interest rate swaps has been reclassified in the comparative balance sheet as at 31 December 2006 in the amount of CZK 57 million from Other Current Liabilities to Other Non-current Liabilities.

In order to achieve more true and fair presentation of the structure of liabilities, there was a change in structure of the current liabilities in the comparative balance sheet as at 31 December 2006. The balance relating to payroll liabilities in the amount of CZK 449 million has been reclassified from Trade Payables to Other Current Liabilities.

Due to the change in method of the presentation of realised interest from hedging interest rate swaps, interest expense and income has been decreased by CZK 122 million in the comparative income statement for the year ended 31 December 2006. This change in presentation method did not have an impact on the financial result.

1.3.2 Adjustments to comparative information

The comparative disclosure of nominal value of foreign exchange forwards as at 31 December 2006 was decreased from the originally presented amount of CZK 48,859 million by CZK 1,613 million to the amount of CZK 47,246 million as forwards realized until the end of 2006 were excluded from the comparative disclosure.

2. Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified by fair value measurement of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit or loss including 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 its judgment in the process of applying the Group's accounting policies. Amounts in the consolidated financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 Details of the Group

In addition to ŠKODA AUTO a. s. located in Mladá Boleslav, the consolidated financial statements include all significant subsidiaries and the associate.

See "Company information" note above for the Company's details.

Subsidiaries are all companies in which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The controlled companies ("subsidiaries") are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control of the Group ceases.

The significant subsidiaries of the Company are as follows:
– ŠkodaAuto Deutschland GmbH (100%);
– ŠKODA AUTO Slovensko, s.r.o. (100%);
– Skoda Auto Polska S.A. (51%);
– Skoda Auto India Private Ltd. (100%).

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

The Company has significant influence over its associate OOO VOLKSWAGEN RUS, Russian Federation, established in 2006.

2.2 Consolidation principles

The subsidiaries are consolidated using the full-scope consolidation method. Assets and liabilities of the subsidiaries are recognised in accordance with the uniform accounting policies used within the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Investments in associate are accounted for using the equity accounting and are initially recognised at cost. The Group's investment in associate includes goodwill identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Foreign currency translation

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

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

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

Foreign subsidiaries and associates are subject to legal and accounting regulations in their respective country. The respective local currency is then their functional currency. The exchange rates published by the Czech National Bank were used when incorporating their financial statements into the consolidated financial statements of the Group:
– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
– Income and expenses for each income statement are translated at monthly average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expenses are translated on the dates of the transactions; and
– All resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Balance sheet FX rate as at 31.12.

	CZK/Currency	2007	2006
Poland	PLN	7.412	7.177
India	INR	0.460	0.472
Slovakia	SKK	0.792	0.799
Germany	EUR	26.620	27.495
Russia	RUB	0.739	0.793

2.4 Intangible assets

Purchased intangible assets are recorded at cost less amortisation and accumulated impairment losses. All research costs are recognised as expenses when incurred. In accordance with IAS 38, all development costs of new Škoda models and other products are recognized 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. These development costs are measured at costs of purchase or at own work cost. If the criteria for recognition as an asset are not met, the expenses are recognised in the income statement in the year in which they are incurred. The right to use Volkswagen's tooling for new platforms is capitalised as an intangible asset. Own work costs include all direct costs as well as an appropriate portion of development-related overheads.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate on the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised, only tested annually for impairment and carried at cost less accumulated impairment losses.

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

– Development costs	5 – 10 years according to the product life cycle
– Software	3 years
– Royalties	8 years
– Other intangible fixed assets	5 years

Intangible assets not yet available for use are tested annually for impairment and carried at cost less accumulated impairment losses.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and – where necessary – write-downs for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

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

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

– Buildings	10 – 50 years
– Technical equipment and machinery (incl. special tools)	2 – 18 years
– Other equipment, operating and office equipment	3 – 15 years

2.6 Impairment of assets

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

2.7 Financial instruments

2.7.1 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets.

b) Loans and receivables

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

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Dividend income from these activities is included in other financial income.

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted financial assets are based on current bid prices. The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. If the market for an equity instrument is not active (or the equity instrument is unlisted) and it is not possible to determine fair value, then these instruments are valued at cost.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through the profit or loss category are presented in the income statement in financial income/financial expenses in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as a part of gains and losses on disposal.

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

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

The value of trade receivables is considered to be impaired if objective evidence exists at the balance sheet date that the Group will not be able to collect all outstanding balances in accordance with initially agreed conditions. Significant financial difficulties, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delays in payment of liabilities are considered indicators that trade receivables are impaired. For trade receivables, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. When the receivable is assessed as uncollectable, an allowance equal to 100% of the receivable balance is created. For other receivables that are not the subject of categorisation, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. Payment schedules are created on the basis of mutual agreement, at the instigation of the Group. When a legal note is sent to the debtor for not fulfilling the contractual conditions, a resolution by agreement or out-of-court settlement is applied. Requests for successive payments are approved where the debtor agrees to pay the outstanding amount within six months. This six month period may be extended in exceptional circumstances on the basis of approval procedures at the level of Group management.

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 value of the allowance is recognized 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 concluded without a legal successor, etc.), it is written off through profit and loss.

2.7.2 Financial liabilities
a) Financial liabilities measured at fair value through profit and loss
During the accounting periods 2007 and 2006, the Group had no financial liabilities in this category. The Group utilises hedge accounting to account for financial derivatives, as the derivatives are used to hedge future cash flows.

b) Financial liabilities measured at amortised cost
The Group's liabilities that were transferred to a factoring company are classified as financial liabilities. Long-term liabilities are measured at fair value including transaction cost at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

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

The Group uses derivatives to hedge future cash flows. The hedged items are as follows:
– Highly probable future transactions; and
– Cash flow from selected liabilities.

The Group hedges against changes in cash flows from selected liabilities caused by changes in interest rates and against changes in cash flows from highly probable future transactions caused by changes in forward rates for expected maturity of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Amounts accumulated in equity are recycled into the income statement in the periods when the hedged item affects profit 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 existing in equity from the effective part of the hedging instrument at that time remains in equity and is recognised 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 equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in 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 by discounting the future cash flows at the market interest rates. The fair value of forward foreign exchange contracts is determined as the present value of future cash flows based on forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of future cash flows based on market interest rates at the balance sheet date.

2.8 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor 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 companies of the Group have the enforceable right to offset the current tax assets and liabilities.

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

The Group recognizes deferred income tax assets on unused investment tax credits 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 utilized.

2.9 Inventories

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

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

2.10 Provisions for employee benefits

The following types of long-term employee benefits are included in the provision for employee benefits:
– Bonuses for long-service awards;
– Retirement bonuses.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period, e.g. up to the retirement age in the case of retirement bonuses or up to the moment of the completion a certain work anniversary of the employee. The amount of provision corresponds to the present value of the other long-term employee benefits at the balance sheet date 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 calculations are charged or credited to the income statement.

The present value of the other long-term employee benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds to the balance sheet date. If a market of such bonds does not exist, the Group uses the market price of treasury bonds. The conditions and currency of these corporate or treasury bonds are consistent with the currency and conditions 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 in the year immediately following are recognised at their settlement value discounted to the balance sheet date based on the effective interest rate method. Discounting is based on market interest rates.

Where there are a number of similar obligations, the likelihood that an outflow will be required in 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 Share based payments

The ultimate parent company VOLKSWAGEN AG provides the option for the acquisition of ordinary shares of VOLKSWAGEN AG to its employees in line with the share option plan established based on a decision of the board of directors with the approval of the supervisory board of VOLKSWAGEN AG and authorization of the annual general meeting held on 19 June 1997. The share option plan entitles qualified employees for a subscription of convertible bonds of VOLKSWAGEN AG for a price of EUR 2.56 per convertible bond. Each convertible bond is convertible into 10 ordinary shares of VOLKSWAGEN AG.

The costs relating to the share option plan are debited by the Group to the income statement and, as the costs are not reinvoiced by VOLKSWAGEN AG to the Group, the corresponding amounts are credited to the share option reserve in equity as a capital contribution.

These equity-settled share based payments are measured at fair value at the date of being granted to the employees. The fair value of the convertible bonds is estimated using a binomial option pricing model.

2.13 Revenue and expense recognition

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

Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment can be assumed. This corresponds generally to the date when the products are provided to dealers outside the Group, or to the delivery date in the case of direct sales to consumers.

Income from the license fees is recognised in accordance with the substance of the relevant agreements. Dividend income is generally recognised on the date at which the dividend is legally approved.

Costs of goods sold 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 and amortisation of capitalised development costs are likewise presented as cost of goods sold.

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.

2.14 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.

2.15 Investment incentives and subsidies

The Group recognizes deferred income tax assets on unused investment tax credits 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 utilized.

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 recognized at fair value as deferred income in non-current liabilities and amortised to the income statement in proportion to the depreciation charge for the related asset.

2.16 Related parties

Related parties as defined by IAS 24 are parties that the Company has the ability to control, or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the Company.

2.17 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.18 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. The 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.

Provision for warranty claims
The Group recognises provisions for warranty claims at the moment of sale. The amount of the provision for individual models is determined on the basis of a professional estimate of the number of failures during the warranty period (2–12 years) and the single failure costs, also considering the specifics of respective countries. Changes in those presumptions can significantly influence the profit. These estimates are revised annually based on historical data about the number of failures and their repair-costs. The amount of the provisions for warranty claims is monitored during the year and 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 (Note 15).

3. Financial risk management

The Group operates in the automotive industry and sells its products in many countries around the world and performs transactions connected with a variety of financial risks. During 2007, there has been a significant increase in the turnover and volume of business activities in this area. As a result the control and prediction of future developments as well as mitigation of possible risks has become inevitable.

The Board of Directors of the Company is regularly informed of the current financial risks, which is achieved through regular meetings. These meetings detail the liquidity and financial risks facing the Group. The objective of the meeting is to minimize these risks by applying a flexible hedging strategy, including the use of various instruments. In compliance with the Volkswagen Group policy all hedging operations are reconciled and implemented in cooperation with the Treasury department of Volkswagen Group.

3.1 Credit risk

Credit risk arises in the normal course of the Group's operations (customer receivables), as well as through activities connected to the financial markets (money market, currency conversion, derivatives transactions, etc.). The quantification of credit risks is based on several different primary criteria, of which the most significant are the country risk and the counterparty risk. In assessing these risks, attention is paid to the country in which the headquarters of the counterparties are situated. The credit rating of these countries is monitored closely and attention is focused on the analysis of macroeconomic indices.

Considerable support in this area is provided by VOLKSWAGEN AG, and consultations take place on a case by case basis with the Volkswagen Group's Treasury specialists and Risk Management Department. Apart from the Volkswagen Group's Risk Management Department, the Group also uses the services of external agencies (D&B, Creditreform, Reuters, etc.) for counterparty analysis.

Financial insolvency of a counterparty may result in immediate losses to the Group, with an unfavourable impact on the Group's economic activities. Therefore the acceptance of new business is reliant on standard approval procedures through the relevant departments of the Group. The Group's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as factoring and forfaiting, bank guarantees, letters of credit and advance payments are used to reduce the risk.

3.1.1 Security

Receivables Security
In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers, Volkswagen Group entities and subsidiaries. Preventive and additional security instruments are used to secure receivables.

Preventive instruments used to secure receivables are used when a contract is concluded. Penalty interest on late payments is a compulsory preventative instrument for written contract relationships. In addition, trade receivables excluding receivables from Volkswagen Group companies are secured by the retention of title.

Trade receivables from Volkswagen Group companies and associate are considered by the Company as low-risk receivables. Thus the deliveries are done with payment conditions as at the due date, eventually the advanced payments are used or the receivables are transferred through factoring to factors (members of the Volkswagen Group).

Trade receivables from foreign customers comprise receivables from general importers and other customers. The following financial backing instruments are implemented to secure receivables from general importers: advance payments, letters of credit, bank guarantees, supportive standby letters of credit and transfer of receivables through factoring. An immaterial balance of receivables from unrelated parties results from deliveries of goods realised on payments at the due date.

Receivables from domestic customers are divided into two groups based on contractual obligations: receivables from contractual partners subject to business or service agreements; and receivables from other domestic customers.

Receivables from the contractual partners for sales of new and used cars are transferred through factoring. Furthermore, the credit limit, which is a control mechanism for non-settled receivables, is set separately for supplies of new and used cars, spare parts and accessories. Once the customer has reached the credit limit, all new sales over the credit limit are automatically put on hold. Supplies to other domestic customers, which form a non-significant part of receivables, are made with a payment at the due date.

In addition, the following instruments and their combinations are used to secure high-risk receivables: acknowledgements of debt, payment schedules, bills of exchange, rights of lien or executor records.

Other security processes
Loans to employees are secured by a pledge of assets.

During the accounting period 2007 and 2006 the Group did not accept any pledges to secure loans.

3.1.2 Maximum exposure to credit risk (CZK million)

The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, trade credits rendered to customers and banked deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment losses. The exposure to credit risk of derivatives is measured at fair value, which is equal to the fair value of the derivative.

	Carrying amount as at 31 December 2006			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	244	–	–	**244**
Loans to Volkswagen Group companies	23,971	–	–	**23,971**
Positive fair values of financial derivates	1,157	–	–	**1,157**
Others	210	–	10	**220**
Trade receivables	4,689	795	22	**5,506**
Total	**30,271**	**795**	**32**	**31,098**

	Carrying amount as at 31 December 2007			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	300	–	–	**300**
Loans to Volkswagen Group companies	25,592	–	–	**25,592**
Positive fair values of financial derivates	1,922	–	–	**1,922**
Others	462	–	7	**469**
Trade receivables	6,648	1,212	14	**7,874**
Total	**34,924**	**1,212**	**21**	**36,157**

3.1.3 Risk concentration

Furthermore, the Group monitors concentration of credit risk by distribution regions and by the denomination currency.

Classification of receivables and provided loans by distribution regions (CZK million)*

Carrying amount as at 31 December 2006	**Czech Republic**	**Central Europe**	**Eastern Europe**	**Western Europe**	**Overseas/ Asia**	**Total**
Receivables and loans from related parties	2,310	111	702	22,962	158	**26,243**
Receivables from third parties	360	257	161	1,252	1,204	**3,234**
Total loans and trade receivables	**2,670**	**368**	**863**	**24,214**	**1,362**	**29,477**

Carrying amount as at 31 December 2007	**Czech Republic**	**Central Europe**	**Eastern Europe**	**Western Europe**	**Overseas/ Asia**	**Total**
Receivables and loans from related parties	3,897	54	1,418	23,154	347	**28,870**
Receivables from third parties	470	562	39	1,892	1,633	**4,596**
Total loans and trade receivables	**4,367**	**616**	**1,457**	**25,046**	**1,980**	**33,466**

* The detailed specification of individual regions is stated in the presentation part of the Notes "Sales and marketing".

Classification of receivables and provided loans by currency (CZK million)

Carrying amount as at 31 December 2006	CZK	EUR	USD	GBP	PLN	SKK	Other currencies	Total
Receivables and loans from related parties	24,434	1,085	579	111	9	4	21	**26,243**
Receivables from third parties	354	1,766	814	–	92	76	132	**3,234**
Total loans and trade receivables	**24,788**	**2,851**	**1,393**	**111**	**101**	**80**	**153**	**29,477**

Carrying amount as at 31 December 2007	CZK	EUR	USD	AUD	PLN	RUB	Other currencies	Total
Receivables and loans from related parties	25,937	1,252	33	239	9	1,216	184	**28,870**
Receivables from third parties	464	2,301	985	–	411	–	435	**4,596**
Total loans and trade receivables	**26,401**	**3,553**	**1,018**	**239**	**420**	**1,216**	**619**	**33,466**

3.1.4 Solvency of financial assets not yet due and not impaired (CZK million)

The Group uses the following criteria when setting ratings of financial assets that are not yet due and not impaired. Solvency class 1 includes receivables and loans from related parties and receivables from third parties (hedged receivables and receivables that will be subject to factoring without recourse) for which there is no objective evidence indicating impairment. Solvency class 2 includes receivables that are subject to factoring with recourse and unsecured trade receivables from third parties for which there is no objective evidence indicating impairment (receivables from dealers without risk and receivables from dealers with a schedule of payments).

Balance as at 31 December 2006	Solvency class 1	Solvency class 2	Total
Loans to employees	244	–	**244**
Loans to concern Volkswagen companies	23,971	–	**23,971**
Positive fair values of financial derivatives	1,157	–	**1,157**
Other receivables and financial assets	210	–	**210**
Trade receivables	3,768	921	**4,689**
Total	**29,350**	**921**	**30,271**

Balance as at 31 December 2007	Solvency class 1	Solvency class 2	Total
Loans to employees	300	–	**300**
Loans to concern Volkswagen companies	25,592	–	**25,592**
Positive fair values of financial derivatives	1,922	–	**1,922**
Other receivables and financial assets	462	–	**462**
Trade receivables	5,391	1,257	**6,648**
Total	**33,667**	**1,257**	**34,924**

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

	Months past due			
Balance as at 31 December 2006	**Less than 1 month**	**1–3 month**	**more than 3 months**	**Total**
Trade receivables	531	220	44	**795**

	Months past due			
Balance as at 31 December 2007	**Less than 1 month**	**1–3 month**	**more than 3 months**	**Total**
Trade receivables	959	186	67	**1,212**

3.1.6 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:

2006	Loans and receivables Individual valuation allowance	Available for sale Individual valuation allowance	Total
Other receivables and financial assets:			
Gross balance as at 31 December	309	202	**511**
Valuation allowance:			
Net balance as at 1 January	(310)	(49)	**(359)**
Additions	(4)	–	**(4)**
Utilised	8	–	**8**
Released	7	–	**7**
Total valuation allowance	**(299)**	**(49)**	**(348)**
Net balance as at 31 December	10	153	**163**
Trade receivables:			
Gross balance as at 31 December	356	–	**356**
Valuation allowance:			
Net balance as at 1 January	(481)	–	**(481)**
Additions	(56)	–	**(56)**
Utilised	106	–	**106**
Released	97	–	**97**
Total valuation allowance	**(334)**	**–**	**(334)**
Net balance as at 31 December	22	–	**22**

2007	Loans and receivables Individual valuation allowance	Available for sale Individual valuation allowance	Total
Other receivables and financial assets:			
Gross balance as at 31 December	379	–	**379**
Valuation allowance:			
Net balance as at 1 January	(389)	(49)	**(438)**
Additions	(4)	–	**(4)**
Utilised	0	30	**30**
Released	21	19	**40**
Total valuation allowance	**(372)**	**–**	**(372)**
Net balance as at 31 December	7	–	**7**
Trade receivables:			
Gross balance as at 31 December	335	–	**335**
Valuation allowance:			
Net balance as at 1 January	(330)	–	**(330)**
Additions	(32)	–	**(32)**
Utilised	22	–	**22**
Released	19	–	**19**
Total valuation allowance	**(321)**	**–**	**(321)**
Net balance as at 31 December	14	–	**14**

3.2 Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources to meet the obligations associated with financial liabilities.

Management monitors the liquidity through monthly management meetings, at which representatives from Treasury, Controlling and Accounting functions are present. Contracted lines of credit are available at various banks in the event that the Group cannot meet its liquidity requirements. The use of these credit lines is limited according to internal guidelines. The Group did not draw any contracted credit lines at 31 December 2007.

In order to monitor the current trends in liquidity and to manage other associated risks (exchange rate risk, interest rate risk, foreign exchange risk, payment conditions, tax legislation, etc), a "Liquidity meeting" is held on a monthly basis in attendance with Treasury, Controlling, Accounting, concerned Treasury and subsidiary representatives and the economic board. The predetermined agenda includes the main macroeconomic data of the Czech Republic as well as all important countries, to which the Company exports its products.

The meetings are part of a formal process, and minutes are maintained together with regular performance evaluation of the committee taking place.

Contractual maturity analysis as at 31 December 2006 (undiscounted amounts in CZK million)

Balance as at 31 December 2006	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Cash	4,512	–	–	–	–	**4,512**
Other receivables and financial assets (except derivatives)	24,157	51	151	56	77	**24,492**
Trade receivables	4,679	–	–	–	827	**5,506**
Financial liabilities	(1,643)	(3,837)	(2,215)	–	–	**(7,695)**
Other liabilities (except derivatives)	–	–	–	–	(14)	**(14)**
Trade payables	(13,898)	(70)	(19)	–	(4,016)	**(18,003)**
Derivatives with positives fair value:						
Currency forwards						
Inflow of financial resources	4,429	15,804	5,687	–	–	**25,920**
Outflow of financial resources	(4,185)	(15,113)	(5,465)	–	–	**(24,763)**
Derivatives with negatives fair value:						
Currency forwards						
Inflow of financial resources	6,129	14,279	204	–	–	**20,612**
Outflow of financial resources	(6,327)	(14,859)	(221)	–	–	**(21,407)**
Interest swaps	–	(39)	(29)	–	–	**(68)**

Contractual maturity analysis as at 31 December 2007 (undiscounted amounts in CZK million)

Balance as at 31 December 2007	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Cash	6,198	–	–	–	–	**6,198**
Other receivables and financial assets (except derivatives)	26,088	66	192	78	96	**26,520**
Trade receivables	6,641	–	–	–	1,233	**7,874**
Financial liabilities	(2,376)	(83)	(2,174)	–	–	**(4,633)**
Other liabilities (except derivatives)	–	–	–	–	(16)	**(16)**
Trade payables	(15,395)	(24)	(25)	–	(5,501)	**(20,945)**
Derivatives with positives fair value:						
Currency forwards						
Inflow of financial resources	5,181	14,869	6,308	–	–	**26,358**
Outflow of financial resources	(4,762)	(13,814)	(5,762)	–	–	**(24,338)**
Interest swaps	–	–	12	–	–	**12**
Derivatives with negatives fair value:						
Currency forwards						
Inflow of financial resources	2,711	8,410	2,804	–	–	**13,925**
Outflow of financial resources	(2,775)	(8,647)	(2,827)	–	–	**(14,249)**

* Unspecified represents the un-discounted cash flows from un-invoiced deliveries where it is not possible to determine the invoice maturity (the usual maturity is six months) as well as past due receivables for which separate maturity cannot be determined.

3.3 Market risk

Market risk includes 3 types of risks: currency risk, interest rate risk and price risk. The Company did not own any financial instruments as at 31 December 2007 (31 December 2006) that would expose the Group to commodity risk.

Developments on the financial markets are considered as the most significant risk factor. In particular, the fluctuation of exchange rates represents the most significant risk in that the Group sells its products, and purchases material, parts and services concurrently in various foreign currencies. Therefore the foreign exchange rate fluctuation will have the most significant influence on the revenues, costs and competitiveness of the Group. The Group actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in the sales regions.

The exchange rate trends for all currencies are discussed with detailed comparisons of the relationships between CZK, EUR and USD, independently of the analysis of macroeconomic data above, for all countries in which the Group and its importers trade. Presentations are made of the actual exchange rate movements, their prospects as well as the effect of the exchange rates on the profit of the Group. This part of meeting approaches the considerations about hedging of the exchange and interest rate risk. The actual status of hedging from the perspective of foreign currency plans (currently with a 3-year outlook) is discussed and the strategy of hedging for each currency for the period based on the expected volume and desired exchange rate is particularised. A part of the discussions is represented by the reporting of development in liquid resources in the individual Group companies, liquidity, drawing of credit lines and their overall availability for the individual companies in required currencies. On the strategic level possibilities of utilising of spare liquidity not only externally, but also within the Volkswagen concern are considered in order to adhere to all requirements of achieving sufficient liquidity and consequently to ensure maximum possible contribution of the spare liquidity to the financial result without additional risks.

The Group also incorporates the use of standard derivative hedging instruments in its control of foreign 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. Future cash flows and hedges are predicted for a 3-year period. Cash outflows in each currency are evaluated against cash realisations in the same currency. Current predictions of currency developments are regularly evaluated against the functional currency, the Czech Crown (CZK). Forward exchange contracts for sales and purchases, as well as currency swaps, are permitted as part of the hedging directive valid for the entire Volkswagen Group, which defines the basic parameters of the hedging policy.

Hedging contracts are concluded in the name of the Group by way of the Treasury Department of the Volkswagen Group.

The most important trading currencies are the EUR, USD, GBP and PLN. In addition to these currencies, currencies of the other European and non-European markets are hedged. In 2007 two new currencies RUB and AUD started to be hedged.

Similarly to the exchange rate risk, the Group actively controls the potentially negative influence of the movement in interest rates that the Group is exposed to within its business activities. The exposure to interest rate risk arises from mid-term and long-term liabilities of the Group, especially issued bonds denominated in CZK. Interest rate swaps are used to hedge against cash flow risks in this area.

The Group applies hedge accounting to account for the instruments and underlying in the area of hedging of currency and interest rate risks.

The current development on world markets in relation to mineral resources has become increasingly influential on the Group results, and therefore management are becoming more attuned to the risks. Due to the continuous increase in the prices of the raw material commodities, price volatility and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through the long term supply contracts with the suppliers. All commodity derivative hedging transactions are concluded centrally in the name of the company VOLKSWAGEN AG and therefore are not financial instruments of the Group.

3.3.1 Derivative financial instruments

Nominal and fair value of derivates (CZK million)

	Nominal value 31 December 2007		Nominal value 31 December 2006		Fair value 31 December 2007		Fair value 31 December 2006	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments:								
Interest rate swaps – cash flow hedging	2,000	–	–	5,000	11	–	–	68
Currency instruments:								
Currency forwards – cash flow hedging	26,352	14,219	25,920	21,326	1,911	307	1,157	795

The fixed interest rates for interest rate swaps was increased from 3.39% to 4.10% as at 31 December 2007 (2006: 3.39% to 4.10%).

Volume of hedged cash flows (CZK million)

	Within 1 year		1–5 years	
Balance as at 31 December 2006	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Interest risk exposure				
Hedging of liabilities	(149)	(28)	(220)	(40)
Currency risk exposure				
Hedging of receivables	25,151	808	5,514	222
Hedging of liabilities	(14,683)	(652)	(156)	(16)
Total	**10,319**	**128**	**5,138**	**166**

	Within 1 year		1–5 years	
Balance as at 31 December 2007	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Interest risk exposure				
Hedging of liabilities	(83)	4	(180)	7
Currency risk exposure				
Hedging of receivables	20,344	1,315	5,737	496
Hedging of liabilities	(9,527)	(196)	(2,860)	(11)
Total	**10,734**	**1,123**	**2,697**	**492**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Group is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR). 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 applying the Czech National Bank exchange rate.

The sensitivity analysis only includes unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at the balance sheet date by using adjusted exchange rates published by the Czech National Bank. The Group considers the movements of exchange rates against CZK in the following period +10% (appreciation of CZK) and –10% (depreciation of CZK) as possible.

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

The following table presents possible impact on profit and loss and on equity before tax of expected possible appreciation (+10%) or depreciation (–10%) of CZK to foreign currencies:

2006 (CZK million)	**CZK appreciation by 10%**	**CZK depreciation by 10%**
Profit and Loss		
Non-derivative financial assets and liabilities	420	(420)
Equity		
Derivative financial assets and liabilities	1,744	(1,744)

2007 (CZK million)	**CZK appreciation by 10%**	**CZK depreciation by 10%**
Profit and Loss		
Non-derivative financial assets and liabilities	502	(502)
Equity		
Derivative financial assets and liabilities	1,577	(1,577)

Should the CZK appreciate against other currencies by 10% (based on the assumption of other variables remaining unchanged) the impact in 2007 on profit before tax would be an increase of CZK +502 million (2006: CZK +420 million) and on other parts of equity CZK +1,577 million (2006: CZK +1,744 million), which is mainly due to the revaluation of unpaid trade payables denominated in EUR and changes in fair value of foreign currency forwards designated for hedging of future cash flows.

Should the CZK depreciate against other currencies by 10% (based on the assumption of other variables remaining unchanged) the impact in 2007 on profit before tax would be a decrease of CZK –502 million (2006: CZK –420 million) and on other parts of equity CZK –1,577 million (2006: CZK –1,744 million), which is mainly due to the revaluation of unpaid trade payables denominated in EUR and changes in fair value of foreign currency forwards designated for hedging of future cash flows.

3.4.2 Sensitivity to interest rates

The Group is exposed to interest rate risk mainly in relation to short-term loans provided to Volkswagen Group companies and due to the existence of financial liabilities arising from the title of issued bonds with floating interest rate. Interest rate risk on the issued bonds is eliminated by interest rate swaps.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at the balance sheet date, as well as to non-derivative financial assets and liabilities. The Group assumes possible movements of the return curve in the following period by +/- 100 basis points. The Group is most sensitive to movements of the CZK return curve. In the case of derivative financial instruments, the Group measures the impact on the change in fair value of these derivatives that results from the change in the return curve. For granted loans and issued bonds the impact on profit and loss is determined on the basis of defined change in the interest rate, which arose at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other non-derivative financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit and loss and on equity before tax of an expected increase (+100 basis points) or decrease (–100 basis points) of interest rates:

2006 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Profit and Loss		
Non-derivative financial assets and liabilities	208	(208)
Derivative financial assets and liabilities	45	(45)
Total	**253**	**(253)**
Equity		
Derivative financial assets and liabilities	78	(82)

2007 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Profit and Loss		
Non-derivative financial assets and liabilities	262	(262)
Derivative financial assets and liabilities	20	(20)
Total	**282**	**(282)**
Equity		
Derivative financial assets and liabilities	44	(46)

In the event that interest rates increase by 100 basis points and other variables remain unchanged, the impact on the profit before tax for the accounting period ending at 31 December 2007 would be CZK +282 million (2006: CZK +253 million) and on other components of equity CZK +44 million (2006: CZK +78 million).

In the event that interest rates decrease by 100 basis points and other variables remain unchanged, the impact on the profit before tax for the accounting period ending at 31 December 2007 would be CZK –282 million (2006: CZK –253 million) and on other components of equity CZK –46 million (2006: CZK –82 million).

3.5 Capital risk management

The optimal capitalisation of the Group is the compromise between two interests – the return on capital and the ability to meet all liabilities when they become due. The Group uses the index of Return on capital employed to identify the capital return.

The Return on capital employed is defined by the ratio of operating profit after notional tax and the value of capital employed that was utilised to generate the operating revenue. The notional tax obligation is determined based on the long term effective tax rate of the Volkswagen Group of 35%. The capital employed is calculated as the average value of operating assets (property, plant and equipment, intangible assets, inventories, trade receivables and the part of other receivables, which is presented under the category other) less non-interest bearing liabilities (trade payables except advance payments received and except uninvoiced deliveries).

Return on capital employed of the Group (CZK million)

	2007	2006
Operating profit before tax	19,784	14,602
Notional income tax (35%)*	6,924	5,111
Operating profit after notional tax	**12,860**	**9,491**
Capital employed	**57,214**	**56,485**
Return on capital employed (%)	**22.5**	**16.8**

* Long-term effective tax rate of the Volkswagen Group

4. Segment reporting

Primary reporting format – business segments
At the end of 2007, the Group has identified only one business segment – development, production and sale of the passenger and utility cars, engines and original parts and car accessories. Other activities do not constitute a separate reportable segment as their financial results, sales and total assets are not material in comparison to the business segment identified.

Secondary reporting format – geographical segments
The Company and main production facilities are situated in the Czech Republic.

Sales are generated from four basic geographical regions: the Czech Republic; Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa/Australia.

2006	**Czech Republic**	**Western Europe**	**Central and Eastern Europe**	**Unallocated***	**Total**
Sales – based on location of customers	25,631	120,411	44,308	13,309	**203,659**
Costs incurred to acquire segment assets	11,279	50	39	87	**11,455**
Assets – according to their location	95,513	4,174	2,756	2,769	**105,212**

2007	**Czech Republic**	**Western Europe**	**Central and Eastern Europe**	**Unallocated***	**Total**
Sales – based on location of customers	26,117	129,397	51,522	14,931	**221,967**
Costs incurred to acquire segment assets	13,397	76	24	461	**13,958**
Assets – according to their location	102,319	5,270	3,140	5,052	**115,781**

* Overseas/Asia/Africa/Australia region is not considered to be a region with similar factors of economic environment and therefore is reported as Unallocated.

5. Intangible assets (CZK million)

	Goodwill	**Capitalised development costs for products currently in use**	**Capitalised development costs for products under development**	**Other intangible assets**	**Total**
Costs					
Balance at 1.1.2006	**87**	**19,366**	**3,810**	**3,047**	**26,310**
Additions	1	624	2,138	226	2,989
Disposals	–	–	–	(102)	(102)
Transfers	–	2,993	(2,993)	(13)	(13)
Foreign exchange differences	(5)	–	–	(9)	(14)
Balance at 31.12.2006	**83**	**22,983**	**2,955**	**3,149**	**29,170**
Amortization and cumulative impairment losses					
Balance at 1.1.2006	**–**	**(11,493)**	**–**	**(1,607)**	**(13,100)**
Amortisation	–	(2,367)	–	(451)	(2,818)
Disposals and transfers	–	–	–	91	91
Foreign exchange differences	–	–	–	8	8
Balance at 31.12.2006	**–**	**(13,860)**	**–**	**(1,959)**	**(15,819)**
Carrying amount at 31.12.2006	**83**	**9,123**	**2,955**	**1,190**	**13,351**

	Goodwill	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs					
Balance at 1.1.2007	**83**	**22,983**	**2,955**	**3,149**	**29,170**
Additions	–	306	2,791	590	3,687
Disposals	–	–	–	(159)	(159)
Transfers	–	924	(924)	4	4
Foreign exchange differences	(4)	–	–	(6)	(10)
Balance at 31.12.2007	**79**	**24,213**	**4,822**	**3,578**	**32,692**
Amortization and cumulative impairment losses					
Balance at 1.1.2007	**–**	**(13,860)**	**–**	**(1,959)**	**(15,819)**
Amortisation	–	(2,450)	–	(457)	(2,907)
Disposals and transfers	–	–	–	68	68
Foreign exchange differences	–	–	–	5	5
Balance at 31.12.2007	**–**	**(16,310)**	**–**	**(2,343)**	**(18,653)**
Carrying amount at 31.12.2007	**79**	**7,903**	**4,822**	**1,235**	**14,039**

Other intangible assets include mainly rights to use the equipment of the Volkswagen group for the development of new platforms and software.

Amortisation of intangible assets of CZK 2,702 million (2006: CZK 2,602 million) is included in the cost of sales, CZK 27 million (2006: CZK 69 million) in distribution expenses, and CZK 178 million (2006: CZK 147 million) in administrative expenses.

Impairment tests of goodwill:
Goodwill is allocated to ŠkodaAuto Deutschland GmbH for the purpose of impairment testing. The recoverable amount of a cash-generating unit is calculated based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate that does not exceed the long-term average growth rate for the automotive industry. The expected growth rate for the impairment test in 2007 was 1% (2006: 1%). The discount rates used are pre-tax rates reflecting specific risks and characteristics of the segment where the cash-generating unit operates. For the year 2007, the discount rate of 9.8% (2006: 9%) was used.

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

	2007	2006
Research and non-capitalised development costs	2,362	1,940
Amortisation of development costs	2,450	2,367
Research and development costs recognised in the income statement	**4,812**	**4,307**

6. Property, plant and equipment (CZK million)

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance at 1.1.2006	**23,480**	**49,752**	**31,474**	**6,961**	**111,667**
Additions	711	1,706	2,353	3,417	8,187
Disposals	(209)	(972)	(1,732)	(15)	(2,928)
Transfers	1,187	1,555	3,081	(5,810)	13
Foreign exchange differences	(33)	(18)	(27)	(6)	(84)
Balance at 31.12.2006	**25,136**	**52,023**	**35,149**	**4,547**	**116,855**
Depreciation and cumulative impairment losses					
Balance at 1.1.2006	**(6,608)**	**(37,811)**	**(25,782)**	**–**	**(70,201)**
Depreciation	(1,025)	(5,286)	(3,461)	–	(9,772)
Additions to cumulative impairment losses	–	(67)	–	–	(67)
Disposals and transfers	131	1,131	1,710	–	2,972
Foreign exchange differences	3	5	14	–	22
Balance at 31.12.2006	**(7,499)**	**(42,028)**	**(27,519)**	**–**	**(77,046)**
Carrying amount at 31.12.2006	**17,637**	**9,995**	**7,630**	**4,547**	**39,809**

	Land and buildings	Technical equipment and machinery	Tooling, office and other equipment	Payments on account and assets under construction	Total
Costs					
Balance at 1.1.2007	**25,136**	**52,023**	**35,149**	**4,547**	**116,855**
Additions	871	2,186	2,484	4,730	10,271
Disposals	(90)	(519)	(944)	–	(1,553)
Transfers	797	1,270	1,368	(3,439)	(4)
Foreign exchange differences	(6)	(6)	(20)	(22)	(54)
Balance at 31.12.2007	**26,708**	**54,954**	**38,037**	**5,816**	**125,515**
Depreciation and cumulative impairment losses					
Balance at 1.1.2007	**(7,499)**	**(42,028)**	**(27,519)**	**–**	**(77,046)**
Depreciation	(1,034)	(4,355)	(3,429)	–	(8,818)
Reversal of cumulative impairment losses	–	78	–	–	78
Disposals and transfers	21	540	898	–	1,459
Foreign exchange differences	(1)	–	10	–	9
Balance at 31.12.2007	**(8,513)**	**(45,765)**	**(30,040)**	**–**	**(84,318)**
Carrying amount at 31.12.2007	**18,195**	**9,189**	**7,997**	**5,816**	**41,197**

Total depreciation of the buildings and equipment of CZK 8,259 million (2006: CZK 9,040 million) is included in the cost of sales, CZK 217 million (2006: CZK 220 million) in distribution expenses, and CZK 342 million (2006: CZK 512 million) in administrative expenses.

7. Investment in associate (CZK million)

	2007	2006
OOO VOLKSWAGEN RUS:		
Total Assets*	4,286	481
Total Liabilities*	3,358	29
Total Revenues*	398	6
Loss	228	21
Statutory shareholding in %	30.0	37.5
Share of profits or losses in %	37.5	37.5

* Translated with the exchange rate as at 31 December 2007 (2006).

On 26 October 2006, the Company acquired a 37.5% share in OOO VOLKSWAGEN RUS (Kaluga, Russian Federation) at a cost of CZK 187 million. In 2007 the Company invested an additional CZK 298 million to the share capital of its associate OOO VOLKSWAGEN RUS. Additionally, the European Bank for Reconstruction and Development (EBRD), a new investor in OOO VOLKSWAGEN RUS, contributed to the statutory equity funds, which resulted in a decrease of statutory shareholding of the Company to 30%.

The Group's share of profits or losses of the associate remained unchanged at 37.5%.

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

	Loans and receivables		Available for sale financial assets		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2006	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Other receivables and financial assets:									
Loans to employees	16	228	–	–	–	–	–	–	**244**
Loans to companies within									
Volkswagen Group (note 29)	23,721	–	–	–	–	–	–	–	**23,721**
Loans to associates	250	–	–	–	–	–	–	–	**250**
Tax receivables (except income tax)	–	–	–	–	–	–	2,850	–	**2,850**
Positive fair value of financial assets	–	–	–	–	935	222	–	–	**1,157**
Available for sale financial assets	–	–	–	159	–	–	–	–	**159**
Others	220	–	–	–	–	–	213	–	**433**
Total	**24,207**	**228**	**–**	**159**	**935**	**222**	**3,063**	**–**	**28,814**
Trade receivables:									
Third parties	3,234	–	–	–	–	–	–	–	**3,234**
Related parties	2,272	–	–	–	–	–	–	–	**2,272**
Total	**5,506**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,506**
Prepaid income tax	**–**	**–**	**–**	**–**	**–**	**–**	**449**	**–**	**449**

	Loans and receivables		Available for sale financial assets		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2007	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Other receivables and financial assets:									
Loans to employees	13	287	–	–	–	–	–	–	**300**
Loans to companies within Volkswagen Group (note 29)	25,338	–	–	–	–	–	–	–	**25,338**
Loans to associates	254	–	–	–	–	–	–	–	**254**
Tax receivables (except income tax)	–	–	–	–	–	–	3,087	–	**3,087**
Positive fair value of financial assets	–	–	–	–	1,417	505	–	–	**1,922**
Available for sale financial assets	–	–	–	6	–	–	–	–	**6**
Others	469	–	–	–	–	–	220	–	**689**
Total	**26,074**	**287**	**–**	**6**	**1,417**	**505**	**3,307**	**–**	**31,596**
Trade receivables:									
Third parties	4,596	–	–	–	–	–	–	–	**4,596**
Related parties	3,278	–	–	–	–	–	–	–	**3,278**
Total	**7,874**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,874**
Prepaid income tax	**–**	**–**	**–**	**–**	**–**	**–**	**601**	**–**	**601**

* The category Others does not meet a definition of financial instruments in terms of IAS 32.

Fair value of the Loan to employees was estimated to be CZK 287 million as at 31 December 2007 (2006: CZK 232 million). The carrying amount including impairment of any of the category Other financial assets which are not carried at fair value approximates fair value.

The weighted effective interest rate based on the carrying amount of loans provided to Volkswagen Group companies as of 31 December 2007 was 3.88% (31 December 2006: 2.43%).

Other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets.

The allowance for the impairment of trade receivables of CZK 321 million (2006: CZK 334 million) has been included in the presented values of trade receivables. The carrying amount of trade receivables approximates the fair value at the balance sheet date after the valuation allowance is taken into account.

9. Inventories (CZK million)

Structure of the inventories	**Carrying value 31.12.2007**	**Carrying value 31.12.2006**
Raw materials, consumables and supplies	3,259	3,188
Work in progress	1,791	1,907
Finished products	4,113	3,200
Goods	4,380	3,953
Total inventories	**13,543**	**12,248**

The amount of inventories recognised as an expense during 2007 was CZK 179,533 million (2006: CZK 170,411 million).

10. Cash (CZK million)

	31. 12. 2007	31. 12. 2006
Cash in hand	4	4
Bank accounts	6,194	4,508
Total	**6,198**	**4,512**

The weighted effective interest rate based on the carrying amount of bank deposits as of 31 December 2007 was 3.54% (31 December 2006: 2.72%).

11. Share capital

The issued share capital consists of 1,670,885 ordinary shares at par value of CZK 10,000 per share. Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. The shares were purchased from VOLKSWAGEN AG on 18 July 2007 within the Volkswagen Group restructuring plan. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.

12. Other reserves (CZK million)

	31.12.2007	31.12.2006
Currency translation reserve	(112)	(78)
Reserves for cash flow hedges*	1,264	78
Subtotal reserves representing capital maintenance	**1,152**	**–**
Statutory reserve fund	1,836	1,292
Funds contributed by owner	9	–
Total other reserves	**2,997**	**1,292**

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges:

Balance as at 1 January 2006 (CZK million)	**(510)**
Total change in fair value in the period	788
Deferred tax on change in fair value	(200)
Total transfers to net profit in the period	4
Deferred tax on transfers to net profit	(4)
Balance as at 31 December 2006	**78**

Balance as at 1 January 2007 (CZK million)	**78**
Total change in fair value in the period	1,192
Deferred tax on change in fair value	(243)
Total transfers to net profit in the period	224
Deferred tax on transfers to net profit	13
Balance as at 31 December 2007	**1,264**

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

In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2007 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

Minority interests on equity of the Group solely represent the minority shareholders of Skoda Auto Polska S.A.

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

	Financial liabilities carried at amortised costs		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2006	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Financial liabilities							
Bonds	2,998	1,995	–	–	–	–	**4,993**
Loans from Volkswagen Group companies	2,333	–	–	–	–	–	**2,333**
Total	**5,331**	**1,995**	**–**	**–**	**–**	**–**	**7,326**
Other liabilities							
Negative fair value of financial derivatives	–	–	806	57	–	–	**863**
Other tax liabilities	–	–	–	–	789	830	**1,619**
Liabilities to employees	–	–	–	–	1,640	–	**1,640**
Social security	–	–	–	–	273	–	**273**
Other	37	4	–	–	–	–	**41**
Total	**37**	**4**	**806**	**57**	**2,702**	**830**	**4,436**
Liabilities relating to current income taxes	**–**	**–**	**–**	**–**	**1,945**	**398**	**2,343**
Trade liabilities to:							
Third parties	15,590	–	–	–	716	–	**16,306**
Related parties	2,413	–	–	–	–	–	**2,413**
Total	**18,003**	**–**	**–**	**–**	**716**	**–**	**18,719**

	Financial liabilities carried at amortised costs		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2007	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Financial liabilities							
Bonds	14	1,997	–	–	–	–	**2,011**
Loans from Volkswagen Group companies	2,376	–	–	–	–	–	**2,376**
Total	**2,390**	**1,997**	**–**	**–**	**–**	**–**	**4,387**
Other liabilities							
Negative fair value of financial derivatives	–	–	296	11	–	–	**307**
Other tax liabilities	–	–	–	–	935	1,122	**2,057**
Liabilities to employees	–	–	–	–	1,705	–	**1,705**
Social security	–	–	–	–	319	–	**319**
Other	13	3	–	–	–	–	**16**
Total	**13**	**3**	**296**	**11**	**2,959**	**1,122**	**4,404**
Liabilities relating to current income taxes	**–**	**–**	**–**	**–**	**2,434**	**522**	**2,956**
Trade liabilities to:							
Third parties	17,022	–	–	–	595	–	**17,617**
Related parties	3,923	–	–	–	–	–	**3,923**
Total	**20,945**	**–**	**–**	**–**	**595**	**–**	**21,540**

* The category Others includes items that are not financial instruments in terms of IAS 32.

The fair value of issued bonds is determined based on quoted market prices as at 31 December 2007. The fair value of the issued bonds amounts to CZK 2,000 million (2006: CZK 5,000 million).

The fair value of bank loans from Volkswagen approximates the carrying value.

The detailed information relating to the liabilities arising out of financial derivates can be found under note 3.3.1.

The carrying value for other classes of current liabilities (other current financial liabilities, trade payables and current tax payables) approximates the fair value in all material respects.

Financial liabilities in the year 2006 also included borrowings from Volkswagen Group companies. These borrowings are payments from a factoring company within the Volkswagen Group that results from factored receivables from companies outside the Volkswagen Group where the risks and rewards were not substantially transferred to the factoring company.

Financial liabilities in the year 2007 include liabilities to a factoring company within the Volkswagen Group which have arisen from the transfer of the Volkswagen intercompany payables to the factoring company within the Volkswagen Group.

None of the financial liabilities are secured by a lien.

The Group issued bonds with the total nominal value of CZK 10 billion on 26 October 2000, each in a nominal value of CZK 100,000. The bonds are publicly traded without restrictions of transferability on the secondary market of the Prague Stock Exchange. The bonds were issued pursuant to Czech legislation, are governed by Czech law and are traded at the Prague Stock Exchange. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat at Na Příkopě 14, 115 20, Prague 1, was the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
3rd tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		**2,000**		**20,000**	

Interests and principal of bonds are paid only in CZK through the administrator.

	ISIN	Due date for the principal	Due date for interest	Bond yield
3rd tranche	CZ0003501199	26.10.2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

The first instalment of CZK 5,000 million related to the five-year issued bonds was settled at 26 October 2005. The second instalment of CZK 3,000 million was settled at 26 October 2007.

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

Carrying amount at 31.12.2006

					Maturity			
Currency	**Interest terms**	**Interest commitment ending**	**Weighted effective interest rate based on nominal amount**	**Nominal amount**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
CZK	floating	<1 year	2.97%	3,000	2,998	–	–	**2,998**
CZK	floating	1–5 years	3.05%	2,000	–	1,995	–	**1,995**
EUR	floating	<1years	–	2,333	2,333	–	–	**2,333**
Total financial liabilities				**7,333**	**5,331**	**1,995**	**–**	**7,326**

Carrying amount at 31.12.2007

					Maturity			
Currency	**Interest terms**	**Interest commitment ending**	**Weighted effective interest rate based on nominal amount**	**Nominal amount**	**< 1 year**	**1–5 years**	**> 5 years**	**Total**
CZK	floating	1–5 years	3.92%	2,000	14	1,997	–	**2,011**
EUR	floating	<1years	–	2,376	2,376	–	–	**2,376**
Total financial liabilities				**4,376**	**2,390**	**1,997**	**–**	**4,387**

14. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Balance at 31.12.2006	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(120)	(2,408)	**(2,528)**
Deferred tax assets	207	129	**336**

Balance at 31.12.2007	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(153)	(1,637)	**(1,790)**
Deferred tax assets	202	141	**343**

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

Deferred tax liabilities:

	Depreciation	**Financial derivates**	**Provisions**	**Tax deductible losses**	**Consolidation differences**	**Other**	**Total**
Balance at 1.1.2006	**(4,508)**	**–**	**–**	**–**	**–**	**(24)**	**(4,532)**
Credited/(debited) to the income statement	210	–	–	–	–	66	276
Charged to equity	–	(79)	–	–	–	(24)	(103)
Balance at 31.12.2006	**(4,298)**	**(79)**	**–**	**–**	**–**	**18**	**(4,359)**
Credited/(debited) to the income statement	865	–	–	–	–	(18)	847
Charged to equity	–	(209)	–	–	–	–	(209)
Exchange differences	–	–	–	–	–	–	–
Balance at 31.12.2007	**(3,433)**	**(288)**	**–**	**–**	**–**	**–**	**(3,721)**

Deferred tax assets:

	Depreciation	**Financial derivates**	**Provisions**	**Tax deductible losses**	**Consolidation differences**	**Other**	**Total**
Balance at 1.1.2006	**171**	**103**	**1,688**	**1**	**100**	**9**	**2,072**
Credited/(debited) to the income statement	(57)	–	308	–	(47)	22	226
Charged to equity	–	(103)	–	–	–	–	(103)
Exchange differences	(13)	–	(13)	–	–	(2)	(28)
Balance at 31.12.2006	**101**	**–**	**1,983**	**1**	**53**	**29**	**2,167**
Credited/(debited) to the income statement	(32)	–	58	(1)	68	37	130
Charged to equity	–	–	–	–	–	(21)	(21)
Exchange differences	(2)	–	(1)	–	–	1	(2)
Balance at 31.12.2007	**67**	**–**	**2,040**	**–**	**121**	**46**	**2,274**

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee benefits	Provisions for the disposal of end-of-life vehicles	Other provisions	Total
Balance at 1.1.2006	**6,408**	**1,803**	**506**	**285**	**556**	**9,558**
Utilised	(3,172)	(1,573)	(155)	(88)	(59)	(5,047)
Additions	5,088	1,617	253	133	358	7,449
Interest costs	126	–	–	19	–	145
Reversals	(27)	(116)	(2)	–	(319)	(464)
Foreign exchange differences	(46)	(43)	(2)	(11)	–	(102)
Balance at 1.1.2007	**8,377**	**1,688**	**600**	**338**	**536**	**11,539**
Utilised	(3,467)	(1,662)	(210)	–	(90)	(5,429)
Additions	5,376	1,746	518	40	230	7,910
Interest costs	21	–	–	(38)	–	(17)
Reversals	–	(165)	(4)	–	(68)	(237)
Foreign exchange differences	(52)	(29)	(2)	(7)	(6)	(96)
Balance at 31.12.2007	**10,255**	**1,578**	**902**	**333**	**602**	**13,670**

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

Balance at 31.12.2006	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	2,479	5,898	8,377
Provisions for other obligations arising from sales	1,668	20	1,688
Provisions for employee benefits	218	382	600
Provisions for disposal of end-of-life vehicles	99	239	338
Other provisions	533	3	536
Total	**4,997**	**6,542**	**11,539**

Balance at 31.12.2007	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	2,689	7,566	10,255
Provisions for other obligations arising from sales	1,552	26	1,578
Provisions for employee benefits	230	672	902
Provisions for disposal of end-of-life vehicles	102	231	333
Other provisions	602	–	602
Total	**5,175**	**8,495**	**13,670**

Provisions for warranty claims increased mainly due to higher sales of cars.

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU guideline no. 200/53/EC and are determined mainly on the basis of registered cars in the country of the individual companies, official statistics, expected costs of the cars ecological scraping and legal requirements valid in individual countries.

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

Provisions for employee expenses include mainly provisions for other long-term employee benefits and severance payments.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for legal fees, penalty interest and other risk followed from the legal proceedings.

The Group is not involved in any legal cases or arbitration proceedings that could have a significant impact on the financial position and the financial results (financial statements) of the Group and there are no material proceedings expected in the near future. The Group provides for the probable expenses for existing legal and arbitration proceedings by means of a relevant provision.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash reported in the balance sheet, short-term loans with original maturity of less than three months of CZK 25,592 million as at 31 December 2007 (31 December 2006: CZK 23,971 million). 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 in addition to property, plant and equipment, non-current financial assets, as well as to capitalised development cost.

Financing activities include besides the outflows and inflows of cash from dividend payments, redemption of bonds and factoring liabilities, also outflows and inflows from other borrowings.

17. Sales (CZK million)

	2007	**2006**
Cars	195,913	180,551
Spare parts and accessories	15,402	14,802
Supplies of components within Volkswagen Group	6,703	5,995
Other sales	3,949	2,311
Total	**221,967**	**203,659**

18. Other operating income (CZK million)

	2007	**2006**
Foreign exchange gains	1,994	1,609
Income from foreign currency trades	1,264	914
Gains on non-current assets disposal	17	44
Release of provisions	9	326
Reversal of receivables' impairment losses	58	245
Other	1,026	1,609
Total	**4,368**	**4,747**

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 re-valuation at the balance sheet date. Foreign exchange losses from these items are included in the other operating expenses.

19. Other operating expenses (CZK million)

	2007	**2006**
Foreign exchange losses	1,923	1,470
Losses from foreign currency trades	1,368	752
Receivables impairment losses and write-offs	66	206
Other	312	250
Total	**3,669**	**2,678**

20. Net profits and losses from financial instruments (CZK million)

2006	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Operating income						
Foreign exchange gains	580	–	1,029	–	–	**1,609**
Revenue from exchange trades	–	–	–	857	57	**914**
Total	**580**	**–**	**1,029**	**857**	**57**	**2,523**
Other operating expenses						
Foreign exchange losses	1,131	–	339	–	–	**1,470**
Expanses from exchange trades	–	–	–	693	59	**752**
Total	**1,131**	**–**	**339**	**693**	**59**	**2,222**
Net gains/(losses)	**(551)**	**–**	**690**	**164**	**(2)**	**301**

2006	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Financial income						
Interest income	486	–	–	–	–	**486**
Foreign exchange gains	33	–	–	–	–	**33**
Other financial income	–	4	–	–	–	**4**
Total	**519**	**4**	**–**	**–**	**–**	**523**
Financial expenses:						
Interest expense	–	–	548	168	146	**862**
Foreign exchange losses	65	–	–	–	–	**65**
Total	**65**	**–**	**548**	**168**	**146**	**927**
Net gains/(losses)	**454**	**4**	**(548)**	**(168)**	**(146)**	**(404)**

2007	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Operating income						
Foreign exchange gains	825	–	1,169	–	–	**1,994**
Revenue from exchange trades	–	–	–	1,192	72	**1,264**
Total	**825**	**–**	**1,169**	**1,192**	**72**	**3,258**
Other operating expenses						
Foreign exchange losses	1,284	–	639	–	–	**1,923**
Expanses from exchange trades	–	–	–	1,291	77	**1,368**
Total	**1,284**	**–**	**639**	**1,291**	**77**	**3,291**
Net gains/(losses)	**(459)**	**–**	**530**	**(99)**	**(5)**	**(33)**

2007	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Financial income						
Interest income	1,023	–	–	–	17	**1,040**
Foreign exchange gains	43	–	–	–	–	**43**
Other financial income	–	28	–	–	–	**28**
Total	**1,066**	**28**	**–**	**–**	**17**	**1,111**
Financial expenses:						
Interest expense	–	–	700	124	–	**824**
Foreign exchange losses	116	–	–	–	–	**116**
Total	**116**	**–**	**700**	**124**	**–**	**940**
Net gains/(losses)	**950**	**28**	**(700)**	**(124)**	**17**	**171**

* Other assets and liabilities: include mainly gains and losses from spots and discounting of warranty provision.

21. Income tax (CZK million)

	2007	2006
Current tax expense – domestic	4,526	3,182
Current tax expense – abroad	329	456
Current tax expense – total	**4,855**	**3,638**
Deferred tax income – domestic	(1,041)	(469)
Deferred tax income – abroad	64	(33)
Deferred tax income	**(977)**	**(502)**
Income tax total	**3,878**	**3,136**

Statutory income tax rate in the Czech Republic for the 2007 assessment period was 24% (2006: 24%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory note. Effective since 1 January 2008 the rate in the Czech Republic has changed to 21%, effective from 1 January 2009 to 20% and effective from 1 January 2010 to 19%.

As at 31 December 2007, deferred income taxes were measured at a tax rate of 19.04% (2006: 24%) that corresponds with the weighted average of statutory tax rates enacted for the future periods when realisation of deferred tax assets and liabilities is expected. The local income tax rates applied for companies outside the Czech Republic vary between 19% and 38.52%.

In 2007 the Group utilised the tax losses carried forward in the amount of CZK 18 million as the tax deductible item and does not record any further tax losses carried forward.

Reconciliation of expected to effective income tax expenses (CZK million):

	2007	2006
Profit before tax	19,860	14,198
Expected income tax expense	**4,766**	**3,408**
Effect of different tax rates outside the Czech Republic and impact of the consolidation adjustments	102	22
Proportion of taxation relating to:		
Tax exempt income	(68)	(165)
Expenses not deductible for tax purposes	241	447
Other permanent differences	3	–
Tax allowances and investment tax credits	(515)	(572)
Prior-period current tax expense	(179)	(18)
Effect of tax rate changes	(367)	–
Other taxation effects	(105)	14
Effective income tax expense	**3,878**	**3,136**
Effective income tax rate	20%	22%

22. Investment incentives

From the total maximum granted amount of investment incentives of CZK 428 million for the project Roomster the Company utilized the total amount of CZK 285 million in 2005–2007. In 2007 the Company utilized investment incentives for this project of CZK 56 million (2006: CZK 200 million) in the form of tax credit of CZK 19 million and in the form of the transfer of a technically equipped area at a reduced price of CZK 37 million.

The Company received CZK 27 million in 2007 (2006: CZK 14 million) in the form of a subsidy for entrepreneurial activities as a subvention for the project of development and technological centre.

In accordance with Investment incentives law No. 72/2000 Coll., as amended based on a resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine production 1.2 TSI in the plant in Mladá Boleslav in the form of an investment tax credit. The total maximum subvention of CZK 548 million corresponds to 40% of the total eligible invested costs related to the investment proposal.

The Company expects to meet all the requirements related to provision of the investment incentives.

23. Contingent liabilities (CZK million)

The tax authorities may at any time inspect the accounting books and records within fourteen years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

The tax authority carried out a detailed audit of the Company's supporting documentation for income tax return for the 2005 taxable period. Also, respective tax authorities are carrying out detailed audits of income tax returns of certain other Group companies. The Group management is not aware of any circumstances that could result in material liabilities arising from current and potential future tax audits.

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

Cash outflows relating to commitments for acquisition of non-current tangible and intangible assets existing at the balance sheet date are as follows:

	Payable until year 2008	**Payable 2009–2012**	**31.12.2007**	**31.12.2006**
Investment commitments	5,414	373	5,787	4,484
Leasing installments	205	259	464	173

On the basis of irrevocable operating lease agreements, the Group is allowed to rent different machine equipment. In the case of termination of these agreements, the Group has to terminate them with a maximum six-month notice period.

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

	2007	**2006**
Material costs – raw materials and other supplies, goods and services	**156,693**	**147,590**
Employee benefits	**14,242**	**12,554**
Wages	10,425	9,525
Pension benefits	2,378	1,793
Social insurance and other personal costs	1,439	1,236
Depreciation and amortization	**11,725**	**12,590**
Other services	**20,222**	**18,392**
Total cost of goods sold, distribution and administrative expenses	**202,882**	**191,126**
Number of employees		
Number of employees*	**28,896**	**27,639**

* Average number of employees (including temporary employees)

26. Related party transactions

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2007	2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	4,071	3,760
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	457	179
VOLKSWAGEN Group United Kingdom Ltd.	13,821	13,556
Groupe VOLKSWAGEN France s.a.	6,812	5,864
VOLKSWAGEN SLOVAKIA, a.s.	950	1,251
Volkswagen Navarra, S.A.	1,391	1,479
Volkswagen Group Sverige AB	3,896	3,489
Import VOLKSWAGEN Group s.r.o.	812	756
Volkswagen Group Rus OOO	6,232	3,776
Volkswagen do Brasil Ltda.	1,215	1,161
AUDI AG	20	4
SEAT, S.A.	726	547
Volkswagen Group Italia S.p.A	5,760	5,509
Volkswagen-Audi España S.A.	8,852	8,205
Volkswagen Bruxelles S.A.	795	416
EC GmbH	–	885
Gearbox del Prat, S.A.	19	19
Volkswagen Poznan Sp. z o.o.	4	–
Volkswagen Motor Polska Sp.z o.o.	61	5
OOO Volkswagen Rus	453	–
Volkswagen Argentina S.A.	2	–
Volkswagen Group Australia Ptg. Ltd.	262	–
Raffay GmbH	506	–
Other related parties		
Bentley Motors TK	–	1
Other related parties	–	403
Total	**57,117**	**51,265**

Besides sales to related parties stated above the Group also realised revenue in 2007 from licence fees of CZK 1,148 million (2006: CZK 120 million) from Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the ultimate parent company VOLKSWAGEN AG.

Purchases from related parties (CZK million)

	2007	2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	25,503	24,010
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	2,879	2,910
Volkswagen Versicherungsvermitlungs GmbH	141	173
VW Versicherungsdienst GmbH	30	58
VOLKSWAGEN Group United Kingdom Ltd.	465	58
Auto Vision GmbH	6	5
IAV Ingenieurgesellschaft GmbH	27	50
Groupe VOLKSWAGEN France s.a.	240	278
VOLKSWAGEN SLOVAKIA, a.s.	180	88
AUDI AG	273	138
VOLKSWAGEN Vertriebsbetreungs GmbH	–	5
Volkswagen Bank GmbH	559	407
Volkswagen Original Teile Logistik GmbH	596	23
AUDI HUNGARIA MOTOR Kft.	13,492	13,000
Import VOLKSWAGEN Group s.r.o.	135	151
Volkswagen Group Rus OOO	301	–
ŠkoFIN s.r.o.	670	584
Volkswagen Navarra, S.A.	16	35
Volkswagen Group Sverige AB	129	99
SEAT, S.A.	1,578	1,503
Volkswagen Group Italia S.p.A	250	401
Volkswagen-Audi Espaňa S.A.	279	4
Volkswagen Poznan Sp. z o.o.	281	249
Volkswagen do Brasil Ltda.	16	10
VOTEX, GmbH	21	22
Volkswagen Bordnetze GmbH	–	11
Autostadt GmbH	19	20
Volkswagen Leasing GmbH	208	153
Volkswagen de Mexico S.A.	86	122
Volkswagen Transport GmbH	348	345
VOLKSWAGEN OF AMERICA INC.	23	27
ŠKO-ENERGO, s.r.o.	1,792	1,669
e4t electronics for transportation s.r.o.	54	48
ŠkoLease s.r.o.	–	17
Volkswagen Group Services	130	206
VOLKSWAGEN SARAJEVO, d.o.o.	32	13
Volkswagen Logistics GmbH	1,545	1,512
Volkswagen Gewerbergrund GmbH	7	7
Volkswagen Gebrauchtfahrzeughandels und Service GmbH	264	–
SAIC-Volkswagen Sales Company Ltd.	300	4
Volkswagen Coaching GmbH	8	4
Volkswagen Argentina S.A.	50	–
Volkswagen India Pvt.Ltd.	11	11
Raffay GmbH	11	–
Other	8	5
Other related parties		
Other related parties	2	74
Total	**52,965**	**48,509**

Receivables from related parties (CZK million)

	31.12.2007	31.12.2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	201	231
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	36	27
VOLKSWAGEN Group United Kingdom Ltd.	138	112
Groupe VOLKSWAGEN France s.a.	104	86
VOLKSWAGEN SLOVAKIA, a.s.	38	105
Volkswagen Navarra, S.A.	54	118
Volkswagen Group Sverige AB	44	21
Volkswagen do Brasil Ltda.	97	139
Import VOLKSWAGEN Group s.r.o.	51	52
Volkswagen Group Rus OOO	801	579
Volkswagen-Audi España S.A.	173	63
ŠkoFIN s.r.o.	273	403
AUDI AG	17	2
SEAT, S.A.	98	115
Volkswagen Group Italia S.p.A	74	26
Gearbox del Prat, S.A.	5	6
Volkswagen Original Teile Logistik GmbH	7	3
Raffay GmbH	3	–
Volkswagen Group Australia Ptg. Ltd.	239	–
Volkswagen Bank GmbH	10	12
Volkswagen Leasing GmbH	31	33
VW Logistics OHG	2	1
Volkswagen Poznan Sp. z o.o.	3	1
Volkswagen Motor Polska Sp.zo.o.	6	2
Volkswagen Argentina, S.A.	2	–
OOO Volkswagen Rus	429	–
Shanghai Volkswagen Automotive Co. Ltd.	11	–
Volkswagen Bruxelles S.A.	159	50
Other related parties		
Other related parties	172	85
Total	**3,278**	**2,272**

In addition to receivables stated in the table above, the Company provided as at 31 December 2007 loans to VOLKSWAGEN AG of CZK 22,000 million (31 December 2006: CZK 22,100 million), ŠkoFIN s.r.o. of CZK 3,000 million (31 December 2006: CZK 1,300 million), Import VOLKSWAGEN Group s.r.o. of CZK 300 million (31 December 2006: CZK 300 million) and ŠKO-ENERGO, s.r.o. of CZK 254 million (31 December 2006: CZK 250 million). Interest from these loans outstanding as at 31 December 2007 was CZK 38 million (31 December 2006: CZK 21 million).

Investment in associate is disclosed in note 7.

Liabilities to related parties (CZK million)

	31.12.2007	31.12.2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	732	368
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	160	203
Volkswagen Versicherungsvermitlungs GmbH	–	34
Volkswagen Poznan Sp. z o.o.	17	17
VOLKSWAGEN Group United Kingdom Ltd.	186	148
Groupe VOLKSWAGEN France s.a.	62	52
Volkswagen de Mexico S.A.	21	20
VW Logistics OHG	1,164	283
VOLKSWAGEN SLOVAKIA a.s.	18	8
Volkswagen do Brasil Ltda.	3	2
Volkswagen Navarra, S.A.	1	2
Volkswagen Group Sverige AB	41	–
ŠkoFIN s.r.o.	42	77
Volkswagen-Audi Espaňa S.A.	91	64
AUDI AG	106	25
AUDI HUNGARIA MOTOR Kft.	787	776
Volkswagen Group Italia S.p.A	132	83
SEAT, S.A.	35	44
Import VOLKSWAGEN Group s.r.o.	4	20
Volkswagen Bank GmbH	120	34
Volkswagen Original Teile Logistik GmbH	43	2
VOTEX, GmbH	2	1
Volkswagen Leasing GmbH	16	20
SAIC-Volkswagen Sales Company Ltd.	7	–
Volkswagen Individual GmbH	2	–
VOLKSWAGEN OF AMERICA INC.	15	10
VW Finanční služby Slovensko	12	–
Volkswagen Group Services	2,376	2,333
Other related parties		
Other related parties	104	120
Total	**6,299**	**4,746**

Information on key management personnel remuneration (CZK million)

	2007	2006**
Salaries and other short-term employee benefits*	313	252
Post-employment benefits	32	20
Share-based payments	2	2
Total	**347**	**274**

The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes besides the remuneration paid, payable or provided by the Group in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Group. The remuneration from the other Volkswagen Group companies also includes awards to certain key management personnel in the form of share options to VOLKSWAGEN AG's shares.

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Group. In 2007, the key management personnel included 53 persons (2006: 53**).

* Salaries and other short-term employee benefits includes besides the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also health and social insurance paid by employer for employees.

** In 2007 there was a change in the presentation of management personnel expenses. The category of this group of key management members was reassessed in compliance with the definition of key positions in the Company's organisation structure which resulted in reduction of the key management personnel in 2006 from 77 to 53 persons.
The change in presentation of management personnel had the following impact on comparative figures: the value of Salaries and other short-term employee benefits was decreased by CZK 84 million and the value of Share-based payments was decreased by CZK 4 million.

27. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 28 million (2006: CZK 30 million) and covered the following services:

	2007	2006
Audit and other assurance services	18	22
Tax and related services	2	3
Other advisory services	8	5
Total	**28**	**30**

28. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements for the year ended 31 December 2007.

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 the following brand groups:

– Volkswagen with product lines: Volkswagen passenger cars, Škoda, Bentley, Bugatti;
– Audi with product lines: Audi, Seat and Lamborghini;
– Commercial vehicles;
– Financial services and
– Other companies.

The principal activity of Volkswagen Group is the development, production and sale of passenger and commercial vehicles, engines, spare parts and accessories. Financial services are provided by a subsidiary company Volkswagen Financial Services AG. Škoda Auto and its subsidiaries (ŠkodaAuto Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o. and Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN RUS are included in the consolidation of Volkswagen Group's financial statements. These consolidated financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on the internet site of VOLKSWAGEN AG (website: www.volkswagen-ir.de).

Mladá Boleslav, 5 February 2008

Reinhard Jung
Chairman
of the Board of Directors

Holger Kintscher
Member of the
Board of Directors
Commercial Affairs
Department

Jana Šrámová
Director of Accounting

Marek Růžička
Head of Closing Accounts
and External Reporting

PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Prague 2
Czech Republic
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Facsimile +420 251 156 111

AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

Independent Auditor's Report to the Shareholder of ŠKODA AUTO a.s.

We have audited the accompanying separate financial statements of ŠKODA AUTO a.s. ("the Company"), which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

Board of Directors' Responsibility for the Financial Statements
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

5 February 2008

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Translation note
This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

INCOME STATEMENT FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	2007	2006
Sales	**18**	**211,026**	**189,816**
Cost of goods sold		180,865	167,709
Gross profit		**30,161**	**22,107**
Distribution expenses		7,964	6,905
Administrative expenses		3,701	3,161
Other operating income	19	3,754	4,112
Other operating expenses	20	3,229	2,377
Operating profit		**19,021**	**13,776**
Financial income		1,099	451
Financial expenses		674	667
Financial result		**425**	**(216)**
Profit before income tax		**19,446**	**13,560**
Income tax expense	22	3,554	2,678
Profit for the year		**15,892**	**10,882**

The notes on pages 128 to 163 are an integral part of these financial statements.

BALANCE SHEET AS AT 31.12.2007 (CZK MILLION)

ASSETS	**Note**	**31.12.2007**	**31.12.2006**
Intangible assets	5	13,908	13,233
Property, plant and equipment	6	40,323	39,298
Investments in subsidiaries	7	1,388	608
Investment in associate	8	485	187
Other receivables and financial assets	9	799	610
Non-current assets		**56,903**	**53,936**
Inventories	10	8,454	8,919
Trade receivables	9	7,268	5,359
Other receivables and financial assets	9	30,235	27,873
Cash	11	2,701	1,348
Current assets		**48,658**	**43,499**
TOTAL ASSETS		**105,561**	**97,435**

LIABILITIES	**Note**	**31.12.2007**	**31.12.2006**
Share capital	12	16,709	16,709
Share premium		1,578	1,578
Reserves	13	48,245	39,720
Equity		**66,532**	**58,007**
Non-current financial liabilities	14	1,997	1,995
Deferred tax liabilities	15	1,777	2,519
Non-current provisions	16	6,496	4,886
Other non-current liabilities		11	57
Non-current liabilities		**10,281**	**9,457**
Current financial liabilities	14	1,143	3,972
Trade payables	14	19,235	18,132
Other current liabilities	14	2,300	2,693
Income tax liabilities		2,354	1,645
Current provisions	16	3,716	3,529
Current liabilities		**28,748**	**29,971**
TOTAL LIABILITIES		**105,561**	**97,435**

The notes on pages 128 to 163 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	Share capital	Share premium	Retained earnings	Other reserves*	Total equity
Balance at 1.1.2006		**16,709**	**1,578**	**27,795**	**401**	**46,483**
Profit for the year		–	–	10,882	–	**10,882**
Financial derivatives**	14	–	–	–	642	**642**
Total income and expenses for the period		**–**	**–**	**10,882**	**642**	**11,524**
Transfer to statutory reserve fund		–	–	(368)	368	**–**
Balance at 31.12.2006		**16,709**	**1,578**	**38,309**	**1,411**	**58,007**
Balance at 1.1.2007		**16,709**	**1,578**	**38,309**	**1,411**	**58,007**
Profit for the year		–	–	15,892	–	**15,892**
Financial derivatives**	14	–	–	–	1,054	**1,054**
Total income and expenses for the period		**–**	**–**	**15,892**	**1,054**	**16,946**
Dividends paid		–	–	(8,430)	–	**(8,430)**
Transfer to statutory reserve fund		–	–	(544)	544	**–**
Share option scheme	27	–	–	–	9	**9**
Balance at 31.12.2007		**16,709**	**1,578**	**45,227**	**3,018**	**66,532**

* Explanatory notes on other reserves are presented in Note 13.
** Explanatory notes on cash flow hedges are presented in Note 2.5.3.

The notes on pages 128 to 163 are an integral part of these financial statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31.12.2007 (CZK MILLION)

	Note	2007	2006
Cash and cash equivalents at 1.1.	**17**	**25,319**	**11,958**
Profit before tax		19,446	13,560
Depreciation and impairment of non-current assets	5, 6	11,671	12,513
Change in provisions	16	1,797	926
Gain/loss on disposal of non-current assets		(14)	28
Net interest (income)/expense		(353)	99
Change in inventories	10	464	(464)
Change in receivables		(2,325)	(43)
Change in liabilities		962	86
Income tax paid from operating activities		(3,816)	(2,541)
Interest paid		(695)	(527)
Interest received		1,112	583
Dividends and other income from investing activities		(112)	(17)
Other adjustments for non-cash transaction		9	–
Cash flows from operating activities		**28,146**	**24,203**
Purchases of non-current assets	5, 6	(10,044)	(8,079)
Additions to capitalised development costs	5	(3,097)	(2,710)
Acquisition of financial investments	7, 8	(1,078)	(187)
Proceeds from sale of non-current assets		41	49
Proceeds from dividends and other investing activities		265	17
Cash flows from investing activities		**(13,913)**	**(10,910)**
Cash flows netto (operating and investing activities)		14,233	13,293
Dividends paid		(8,430)	–
Change in liabilities from factoring	14	171	68
Repayment of bonds	14	(3,000)	–
Cash flows from financing activities		**(11,259)**	**68**
Net change in cash and cash equivalents		**2,974**	**13,361**
Cash and cash equivalents at 31. 12.	**17**	**28,293**	**25,319**

The notes on pages 128 to 163 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS 2007

Company information

Foundation and company enterprises:
ŠKODA AUTO a.s. was established as a legal entity on 20 November 1990. The Company's principal business activities are the development, production and sale of vehicles and related accessories.

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

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

Organisational structure of the company is divided into the following main areas:
– Chairman of the Board's Department;
– Technical development;
– Production and logistic;
– Sales and marketing;
– Commercial affairs; and
– Human resource management.

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 included in the consolidation group of its ultimate parent company, VOLKSWAGEN AG ("Volkswagen Group"), with a registered office in Wolfsburg, the Federal Republic of Germany (for detail see Note 30).

Translation note
This version of the financial statements is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of these financial statements takes precedence over this translation.

1. Summary of significant accounting policies and principles

1.1 Summary statement

These financial statements are separate financial statements of ŠKODA AUTO a.s. ("the Company") for the year ended 31 December 2007 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2007. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2007 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

The separate financial statements of the Company for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2007.

Refer to the Company information note on page 5 for the Company details.

All International Financial Reporting Standards issued by the IASB and effective for the accounting periods beginning on or after 1 January 2007 have been adopted by the European Union through the endorsement procedure established by the European Commission. As at 31 December 2007 the Council of the European Union has not endorsed the following interpretations: IFRIC 12, IFRIC 13, IFRIC 14 and amended or revised standards: IFRS 2, IFRS 3, IAS 1, IAS 23, IAS 27, IAS 28, IAS 31 and IAS 32, which are not yet effective.

The Company, as an issuer of listed bonds, is obliged under paragraph 19 (9) of Act No.563/1991 on Accounting to prepare financial statements and an annual report in accordance with IFRS.

1.2 Adoption of new standards, amendments and interpretations to existing standards

1.2.1 New standards, amendments and interpretations to existing standards mandatory for the 2007 accounting period

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2007 do not have a material impact or are not relevant to the Company's operations:
– IFRS 4 – Amendment – Insurance Contracts (effective date March 2006);
– IFRIC 7 – Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date 1 March 2006);
– IFRIC 8 – Scope of IFRS 2 (effective date 1 May 2006);
– IFRIC 9 – Reassessment of Embedded Derivatives (effective date 1 June 2006);
– IFRIC 10 – Interim Financial Reporting and Impairment (effective date 1 November 2006).

The following standards, amendments and interpretations mandatory for accounting periods beginning on or after 1 January 2007 were fully adopted by the Company:
– IAS 1 – Presentation of Financial Statements: Capital disclosure (effective date 1 January 2007);
– IFRS 7 – Financial instruments: Disclosures (effective date 1 January 2007).

The adoption of the standards mentioned above did not have a material impact on measurement and disclosure methods. However, the implementation of IFRS 7 has resulted in additional disclosure requirements.

The following standards, amendments and interpretations mandatory for accounting periods beginning after 1 January 2007 were early adopted by the Company:
– IFRIC 11 – IFRS 2: Group and Treasury Share Transactions (effective date 1 March 2007)

In connection with this interpretation the Statement of Changes in Equity was extended by the Share option fund created in line with this interpretation against the payroll costs. Adoption of this interpretation does not have a material impact on the financial statements.

1.2.2 New standards, amendments and interpretations to existing standards published not yet effective
The following standards, amendments and interpretations will be relevant for the Company but were not early adopted by the Company:

- IFRS 8 – Operating segments (effective date 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. IFRS 8 is not relevant to the Company since it does not have more than one operating segments;
- IAS 1 – Presentation of Financial Statements (revised September 2007, effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Company expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances. The amendments to IAS 1 have not yet been endorsed by the European Union.

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

- IAS 23 – Amendment – Borrowing costs (effective date 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment to IAS 23 is not expected to have a material impact on Company's operations. The amendments to IAS 23 have not yet been endorsed by the European Union;
- IAS 27 – Amendment – Consolidated and Separate Financial Statements (effective date 1 July 2009). The amendments to IAS 27 have not yet been endorsed by the European Union;
- IAS 28 – Amendment – Investments in Associates (effective date 1 July 2009);
- IAS 31 – Amendment– Interests in Joint Ventures (effective date 1 July 2009);
- IAS 32 – Amendment – Financial Instruments: Presentation (effective date 1 January 2009);
- IFRIC 4 – Determining whether an Arrangement contains a Lease (Amendment of §4(b)) (effective date 1 January 2008) ;
- IFRIC 12 – Service Concession Arrangements (effective date 1 January 2008);
- IFRIC 13 – Customer Loyalty Programmes (effective date 1 July 2008);
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective date 1 January 2008);
- IFRS 2 – Amendment – Share-based Payments (effective date 1 January 2009);
- IFRS 3 – Amendment – Business Combinations (effective date 1 July 2009). The revised IFRS 3 reinforces the existing IFRS 3 model but remedies problems that have emerged in its application. The project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The objective was to develop a single high quality accounting standard that would ensure that the accounting for business combinations is the same whether an entity is applying International Financial Reporting Standards (IFRSs) or US generally accepted accounting principles (GAAP). IFRS 3 is not relevant to these financial statements because the Company presents stand alone financial statements. The amendments to IFRS 3 have not yet been endorsed by the European Union.

1.3 Comparative amounts

In connection with implementation of IFRS 7, the Company reviewed the presentation and changed the classification of the following items in the balance sheet and income statement:

The positive fair value of the hedging foreign currency forward contracts has been reclassified in the comparative balance sheet as at 31 December 2006 in the amount of CZK 222 million from Other Receivables and Financial Assets presented within Current Assets to Other Receivables and Financials Assets presented within Non-current Assets.

The negative fair value of the hedging foreign currency forward contracts and interest rate swaps has been reclassified in the comparative balance sheet as at 31 December 2006 in the amount of CZK 57 million from Other Current Liabilities to Other Non-current Liabilities.

In order to achieve more true and fair presentation of the structure of liabilities, there was a change in structure of the current liabilities in the comparative balance sheet as at 31 December 2006. The balance relating to payroll liabilities in the amount of CZK 449 million has been reclassified from Trade Payables to Other Current Liabilities.

Due to the change in method of the presentation of realised interest from hedging interest rate swaps, interest expense and income has been decreased by CZK 122 million in the comparative income statement for the year ended as at 31 December 2006. This change in presentation method did not have an impact on the financial result.

2. Basis of preparation of financial statements

The separate financial statements have been prepared under the historical cost convention, as modified by fair value measurement of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss including 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 its judgment in the process of applying the Company's accounting policies. Amounts in the financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

2.1 Foreign currency translation

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

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

2.2 Intangible assets

Purchased intangible assets are recorded at cost less amortisation and accumulated impairment losses. All research costs are recognised as expenses when incurred. In accordance with IAS 38, all development costs of new Škoda models and other products are recognized 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. These development costs are measured at costs of purchase or at own work cost. If the criteria for recognition as an asset are not met, the expenses are recognised in the income statement in the year in which they are incurred. The right to use Volkswagen's tooling for new platforms is capitalised as an intangible asset. Own work costs include all direct costs as well as an appropriate portion of development-related overheads.

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:

– Development costs	5 – 10 years according to the product life cycle
– Software	3 years
– Royalties	8 years
– Other intangible fixed assets	5 years

Intangible assets not yet available for use are tested annually for impairment and carried at cost less accumulated impairment losses.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and – where necessary – write-downs for impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

All repairs and maintenance costs, as well as borrowing costs, are charged to the income statement during the financial 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.

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

– Buildings	10 – 50 years
– Technical equipment and machinery (incl. special tools)	2 – 18 years
– Other equipment, operating and office equipment	3 – 15 years

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 for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

2.5. Financial instruments

2.5.1 Financial Assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; available-for-sale financial assets; and shares in subsidiaries and associates. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedging instruments. Assets in this category are classified as current assets.

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

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

Purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 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. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair values of quoted financial assets are based on current bid prices. The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. If the market for an equity instrument is not active (or the equity instrument is unlisted) and it is not possible to determine fair value, then these instruments are valued at cost.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through the profit or loss category are presented in the income statement in financial income/ financial expenses in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as a part of gain and losses on disposal.

The Company determines at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. Initially the Company determines 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, this asset is included in the group of financial assets with common credit risk characteristics and the group of common financial assets is assessed collectively for impairment. Individual assets for which objective evidence of impairment has been identified are not included in a group of assets that are assessed collectively for impairment.

In the case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

The value of trade receivables is considered to be impaired if objective evidence exists at the balance sheet date that the Company will be not 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 uncollectable, an allowance equal to 100% of the receivable balance is created. For other receivables that are not the subject of categorisation, the allowance is quantified on the basis of detailed information about the financial situation of the customer and payment history. Payment schedules are created on the basis of mutual agreement, at the instigation of the Company. When a legal note is sent to the debtor for not fulfilling the contractual conditions, a resolution by agreement or out-of-court settlement is applied. Requests for successive payments are approved where the debtor agrees to pay the outstanding amount within six months. This six month period may be extended in exceptional circumstances on the basis of approval procedures at the level of Company management.

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 value of the allowance is recognized 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 concluded without a legal successor, etc.), it is written off through profit and loss.

d) Investments in subsidiaries and associates
Investments in subsidiaries and associates are carried in the separate financial statements at cost.

2.5.2 Financial liabilities

a) Financial liabilities measured at fair value through profit and loss
During the accounting periods 2007 and 2006 the Company had no financial liabilities in this category. The Company utilises hedge accounting to account for financial derivatives, as the derivatives are used to hedge future cash flows.

b) Financial liabilities measured at amortised cost
The Company's liabilities that were transferred to a factoring company are classified as financial liabilities. Long-term liabilities are measured at fair value including transaction cost at initial recognition. Subsequent measurement is at amortised cost by applying the effective interest rate method.

2.5.3 Financial derivates
The Company uses derivatives to hedge interest rate and currency 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 requirement of a hedge accounting.

The Company uses derivatives to hedge future cash flows. The hedged items are as follows:
– Highly probable future transactions; and
– Cash flow from selected liabilities.

The Company hedges against changes in cash flows from selected liabilities caused by changes in interest rates and against changes in cash flows from highly probable future transactions caused by changes in forward rates for expected maturity of transactions.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Amounts accumulated in equity are recycled into the income statement in the periods when the hedged item affects profit 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 existing in equity from the effective part of the hedging instrument at that time remains in equity and is recognised 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 equity is immediately transferred to the income statement.

Certain derivative instruments do not qualify for hedge accounting according to IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in 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 by discounting the future cash flows at the market interest rates. The fair value of forward foreign exchange contracts is determined as present value of future cash flows based on forward exchange market rates at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of future cash flows based on market interest rates at the balance sheet date.

2.6 Deferred income tax

Deferred income tax is provided in full, using the liability method, 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 nor 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 directly in equity (for example the effective portion of changes in the fair value of financial derivates that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Company recognises deferred income tax assets on unused investment tax credits 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 utilized.

2.7 Inventories

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

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

2.8 Provisions for employee benefits

The following types of long-term employee benefits are included in the provision for employee benefits:
- Bonuses for long-service awards; and
- Retirement bonuses.

The entitlement to these benefits is usually conditional on the employee remaining in service for a certain service period, e.g. up to the retirement age in the case of retirement bonuses or up to the moment of the completion a certain work anniversary of the employee. The amount of provision corresponds to the present value of the other long-term employee benefits at the balance sheet date 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 calculations are charged or credited to the income statement.

The present value of the other long-term employee benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds to the balance sheet date. If a market of such bonds does not exist, the Company uses the market price of treasury bonds. The conditions and currency of these corporate or treasury bonds are consistent with the currency and conditions of the respective other long-term employee benefits.

2.9 Other provisions

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

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

2.10 Share based payments

The ultimate parent company VOLKSWAGEN AG provides the option for the acquisition of ordinary shares of VOLKSWAGEN AG to its employees in line with the share option plan established based on a decision of the board of directors with the approval of the supervisory board of VOLKSWAGEN AG and authorization of the annual general meeting held on 19 June 1997. The share option plan entitles qualified employees for a subscription of convertible bonds of VOLKSWAGEN AG for a price of EUR 2.56 per convertible bond. Each convertible bond is convertible into 10 ordinary shares of VOLKSWAGEN AG.

The costs relating to the share option plan are debited by the Company to the income statement and, as the costs are not reinvoiced by VOLKSWAGEN AG to the Company, the corresponding amounts are credited to the share option reserve in equity as a capital contribution.

These equity-settled share based payments are measured at fair value at the date of being granted to the employees. The fair value of the convertible bonds is estimated using a binomial option pricing model.

2.11 Revenue and expense recognition

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

Sales of goods are recognised only when the goods have been delivered, that is, when the significant risks and rewards have passed to the customer, the sales price is agreed or determinable and receipt of payment can be assumed. 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.

Income from the license fees is recognised in accordance with the substance of the relevant agreements. Dividend income is generally recognised on the date at which the dividend is legally approved.

Costs of goods sold 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 and amortisation of capitalised development costs are likewise presented as cost of goods sold.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

2.12 Leases

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

2.13 Investment incentives and subsidies

The Company recognises deferred income tax assets on unused investment tax credits 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 utilized.

Subsidies of entrepreneurial activities and of employee training and retraining costs are recognized 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 recognized at fair value as deferred income in non-current liabilities and amortised to the income statement in proportion to the depreciation charge for the related asset.

2.14 Related parties

Related parties as defined by IAS 24 are parties that the Company has the ability to control, or over which it can exercise significant influence, or parties that have the ability to control or exercise significant influence over the Company.

2.15 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.16 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. The 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.

Provision for warranty claims
The Company recognises provisions for warranty claims at the moment of sale. The amount of the provision for individual models is determined on the basis of a professional estimate of the number of failures during the warranty period (2–12 years) and the single failure costs, also considering the specifics of particular countries. Changes in those presumptions can significantly influence the profit. These estimates are revised annually based on historical data about the number of failures and their repair-costs. The amount of the provisions for warranty claims is monitored during the year and 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 (Note 16).

3. Financial risk management

The Company operates in the automotive industry and sells its products in many countries around the world and performs transactions connected with a variety of financial risks. During 2007, there has been a significant increase in the turnover and volume of business activities in this area. As a result the control and prediction of future developments as well as mitigation of possible risks has become inevitable.

The Board of Directors of the Company is regularly informed of the current financial risks, which is achieved through regular meetings. These meetings detail the liquidity and financial risks facing the Company. The objective of the meeting is to minimize these risks by applying a flexible hedging strategy, including the use of various instruments. In compliance with the Volkswagen Group policy all hedging operations are reconciled and implemented in cooperation with the Treasury department of Volkswagen Group.

3.1 Credit risk

Credit risk arises in the normal course of the Company's operations (customer receivables), as well as through activities connected to the financial markets (money market, currency conversion, derivatives transactions, etc). 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 macroeconomics indices.

Considerable support in this area is provided by VOLKSWAGEN AG, and consultations take place on a case by case basis with the Volkswagen Group's Treasury specialists and Risk Management Department. Apart from the Volkswagen Group's Risk Management Department, the Company also uses the services of external agencies (D&B, Creditreform, Reuters, etc.) for counterparty analysis.

Financial insolvency of a counterparty may result in immediate losses to the Company, with an unfavourable impact on the Company's economic activities. Therefore the acceptance of new business is reliant on standard approval procedures through the relevant departments of the Company. The Company's involvement with counterparties is managed by means of credit limits that are monitored and re-evaluated on a regular basis.

Active administration and management of receivables is incorporated into the credit risk management process and standard financial market instruments such as factoring and forfaiting, bank guarantees, letters of credit and advance payments are used to reduce the risks.

3.1.1 Security

Receivables Security
In respect of the trade receivables security strategy, trade receivables are divided into receivables from domestic customers, foreign customers, Volkswagen Group entities and subsidiaries. Preventive and additional security instruments are used to secure receivables.

Preventive instruments used to secure receivables are used when a contract is concluded. Penalty interest on late payments is a compulsory preventative instrument for written contract relationships. In addition, trade receivables excluding receivables from Volkswagen Group companies are secured by the retention of title.

Trade receivables from Volkswagen Group companies, subsidiaries and associates are considered by the Company as low-risk receivables. Thus the deliveries are done with payment conditions at the due date, eventually the advanced payments are used or the receivables are transferred through factoring to factors (members of the Volkswagen Group).

Trade receivables from foreign customers comprise receivables from general importers and other customers. The following financial backing instruments are implemented to secure receivables from general importers: advance payments, letters of credit, bank guarantees, supportive standby letters of credit and transfer of receivables through factoring. An immaterial balance of receivables from unrelated parties results from deliveries of goods realised on payments at the due date.

Receivables from domestic customers are divided into two groups based on contractual obligations: receivables from contractual partners subject to business or service agreements; and receivables from other domestic customers.

Receivables from the contractual partners for sales of new and used cars are transferred through factoring. Furthermore, the credit limit, which is a control mechanism for non-settled receivables, is set separately for supplies of new and used cars, spare parts and accessories. Once the customer has reached the credit limit, all new sales over the credit limit are automatically put on hold. Supplies to other domestic customers, which form a non-significant part of receivables, are made with a payment at the due date.

In addition, the following instruments and their combinations are used to secure high-risk receivables: acknowledgements of debt, payment schedules, bills of exchange, rights of lien or executor records.

Other security processes
Loans to employees are secured by a pledge of assets.

During the accounting periods 2006 and 2007 the Company did not accept any pledges to secure loans.

3.1.2 Maximum exposure to credit risk (CZK million)

The maximum exposure to credit risk in case of activities connected to business operations, granting of loans, trade credits rendered to customers and banked deposits is calculated as the gross carrying amount of the above mentioned financial assets less any impairment losses. The exposure to credit risk of derivatives is measured at fair value, which is equal to the fair value of the derivative.

	Carrying amount as at 31 December 2006			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	244	–	–	**244**
Loans to Volkswagen Group companies	23,971	–	–	**23,971**
Positive fair values of financial derivates	1,157	–	–	**1,157**
Others	150	–	9	**159**
Trade receivables	4,802	557	–	**5,359**
Total	**30,324**	**557**	**9**	**30,890**

	Carrying amount as at 31 December 2007			
	Non-impaired financial assets not yet due	**Non-impaired financial assets past due**	**Impaired financial assets**	**Total**
Loans to employees	300	–	–	**300**
Loans to Volkswagen Group companies	25,592	–	–	**25,592**
Positive fair values of financial derivates	1,832	–	–	**1,832**
Others	351	–	6	**357**
Trade receivables	6,478	790	–	**7,268**
Total	**34,553**	**790**	**6**	**35,349**

3.1.3 Risk concentration

Furthermore, the Company monitors concentration of credit risk by distribution regions and by the denomination currency.

Classification of receivables and provided loans by distribution regions (CZK million)*

Carrying amount as at 31 December 2006	**Czech Republic**	**Central Europe**	**Eastern Europe**	**Western Europe**	**Overseas/ Asia**	**Total**
Receivables and loans from related parties	2,310	235	702	22,949	642	**26,838**
Receivables from third parties	360	89	161	765	1,117	**2,492**
Total loans and trade receivables	**2,670**	**324**	**863**	**23,714**	**1,759**	**29,330**

Carrying amount as at 31 December 2007	**Czech Republic**	**Central Europe**	**Eastern Europe**	**Western Europe**	**Overseas/ Asia**	**Total**
Receivables and loans from related parties	3,897	379	1,418	23,149	932	**29,775**
Receivables from third parties	470	102	39	1,094	1,380	**3,085**
Total loans and trade receivables	**4,367**	**481**	**1,457**	**24,243**	**2,312**	**32,860**

* The detailed specification of individual regions is stated in the presentation part of the Notes "Sales and marketing".

Classification of receivables and provided loans by currency (CZK million)

Carrying amount as at 31 December 2006	**CZK**	**EUR**	**USD**	**GBP**	**PLN**	**SKK**	**Other currencies**	**Total**
Receivables and loans from related parties	24,434	1,075	1,063	111	92	42	21	**26,838**
Receivables from third parties	354	1,279	814	–	–	–	45	**2,492**
Total loans and trade receivables	**24,788**	**2,354**	**1,877**	**111**	**92**	**42**	**66**	**29,330**

Carrying amount as at 31 December 2007	**CZK**	**EUR**	**USD**	**AUD**	**PLN**	**RUB**	**Other currencies**	**Total**
Receivables and loans from related parties	25,937	1,832	33	239	226	1,216	292	**29,775**
Receivables from third parties	464	1,503	985	–	–	–	133	**3,085**
Total loans and trade receivables	**26,401**	**3,335**	**1,018**	**239**	**226**	**1,216**	**425**	**32,860**

3.1.4 Solvency of financial assets not yet due and not impaired (CZK million)

The Company uses the following criteria when setting ratings of financial assets that are not yet due and not impaired. Solvency class 1 includes receivables and loans from related parties and receivables from third parties (hedged receivables and receivables that will be subject to factoring without recourse) for which there is no objective evidence indicating impairment. Solvency class 2 includes receivables that are subject to factoring with recourse and unsecured trade receivables from third parties for which there is no objective evidence indicating impairment (receivables from dealers without risk and receivables from dealers with a schedule of payments).

Balance as at 31 December 2006	Solvency class 1	Solvency class 2	Total
Loans to employees	244	–	**244**
Loans to Volkswagen Group companies	23,971	–	**23,971**
Positive fair values of financial derivatives	1,157	–	**1,157**
Other receivables and financial assets	150	–	**150**
Trade receivables	4,200	602	**4,802**
Total	**29,722**	**602**	**30,324**

Balance as at 31 December 2007	Solvency class 1	Solvency class 2	Total
Loans to employees	300	–	**300**
Loans to Volkswagen Group companies	25,592	–	**25,592**
Positive fair values of financial derivatives	1,832	–	**1,832**
Other receivables and financial assets	351	–	**351**
Trade receivables	6,084	394	**6,478**
Total	**34,159**	**394**	**34,553**

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

	Months past due			
Balance as at 31 December 2006	**Less than 1 month**	**1–3 month**	**more than 3 months**	**Total**
Trade receivables	363	172	22	**557**

	Months past due			
Balance as at 31 December 2007	**Less than 1 month**	**1–3 month**	**more than 3 months**	**Total**
Trade receivables	623	113	54	**790**

3.1.6 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:

	Loans and receivables	Available for sale	
2006	**Individual valuation allowance**	**Individual valuation allowance**	**Total**
Other receivables and financial assets:			
Gross balance as at 31 December	299	202	**501**
Valuation of allowance:			
Balance as at 1 January	(297)	(49)	**(346)**
Additions	–	–	**–**
Utilised	–	–	**–**
Released	7	–	**7**
Total valuation of allowance	**(290)**	**(49)**	**(339)**
Net balance as at 31 December	9	153	**162**
Trade recevables:			
Gross balance as at 31 December	268	–	**268**
Valuation of allowance:			
Balance as at 1 January	(412)	–	**(412)**
Additions	(6)	–	**(6)**
Utilised	98	–	**98**
Released	52	–	**52**
Total valuation of allowance	**(268)**	**–**	**(268)**
Net balance as at 31 December	–	–	–

2007	Loans and receivables Individual valuation allowance	Available for sale Individual valuation allowance	Total
Other receivables and financial assets:			
Gross balance as at 31 December	292	–	**292**
Valuation of allowance:			
Balance as at 1 January	(290)	(49)	**(339)**
Additions	–	–	**–**
Utilised	–	30	**30**
Released	4	19	**23**
Total valuation of allowance	**(286)**	**–**	**(286)**
Net balance as at 31 December	6	–	**6**
Trade recevables:			
Gross balance as at 31 December	245	–	**245**
Valuation of allowance:			
Balance as at 1 January	(268)	–	**(268)**
Additions	(8)	–	**(8)**
Utilised	22	–	**22**
Released	9	–	**9**
Total valuation of allowance	**(245)**	**–**	**(245)**
Net balance as at 31 December	–	–	**–**

3.2 Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources to meet the obligations associated with financial liabilities.

Management monitors the liquidity through monthly management meetings, at which representatives from Treasury, Controlling and Accounting functions are present. Contracted lines of credit are available at various banks in the event that the Company cannot meet its liquidity requirements. The use of these credit lines is limited according to internal guidelines. The Company did not draw any contracted credit lines at 31 December 2007.

In order to monitor the current trends in liquidity and to manage other associated risks (exchange rate risk, interest rate risk, foreign exchange risk, payment conditions, tax legislation, etc.), a "Liquidity meeting" is held on a monthly basis in attendance with Treasury, Controlling, Accounting, concerned Treasury and subsidiary representatives and the economic board. The predetermined agenda includes the main macroeconomic data of the Czech Republic as well as all important countries, to which the Company exports its products.

The meetings are part of a formal process, and minutes are maintained together with regular performance evaluation of the committee taking place.

Contractual maturity analysis as at 31 December 2006 (undiscounted amounts in CZK million):

Balance as at 31 December 2006	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Cash	1,348	–	–	–	–	**1,348**
Other receivables and financial assets (except derivates)	24,133	51	151	56	32	**24,423**
Trade receivables	4,793	–	–	–	566	**5,359**
Financial liabilities	(974)	(3,147)	(2,215)	–	–	**(6,336)**
Other liabilities (except derivates)	–	–	–	–	(37)	**(37)**
Trade payables	(12,820)	(32)	(18)	–	(3,662)	**(16,532)**
Derivatives with positives fair value						
Currency forwards						
Inflow of financial resources	4,429	15,804	5,687	–	–	**25,920**
Outflow of financial resources	(4,185)	(15,113)	(5,465)	–	–	**(24,763)**
Derivatives with negatives fair value						
Currency forwards						
Inflow of financial resources	5,609	12,830	205	–	–	**18,644**
Outflow of financial resources	(5,789)	(13,389)	(221)	–	–	**(19,399)**
Interest swaps	–	(39)	(29)	–	–	**(68)**

Balance as at 31 December 2007	Less than 3 months	3–12 months	1–5 years	Longer than 5 years	Unspecified*	Total
Cash	2,701	–	–	–	–	**2,701**
Other receivables and financial assets (except derivates)	25,953	66	192	78	23	**26,312**
Trade receivables	6,478	–	–	–	790	**7,268**
Financial liabilities	(1,129)	(83)	(2,174)	–	–	**(3,386)**
Other liabilities (except derivates)	–	–	–	–	(13)	**(13)**
Trade payables	(13,897)	(22)	(25)	–	(4,676)	**(18,620)**
Derivatives with positives fair value						
Currency forwards						
Inflow of financial resources	4,445	13,138	6,309	–	–	**23,892**
Outflow of financial resources	(4,051)	(12,147)	(5,762)	–	–	**(21,960)**
Interest swaps	–	–	12	–	–	**12**
Derivatives with negatives fair value						
Currency forwards						
Inflow of financial resources	2,711	8,410	2,804	–	–	**13,925**
Outflow of financial resources	(2,775)	(8,647)	(2,827)	–	–	**(14,249)**

* Unspecified represents the un-discounted cash flows from un-invoiced deliveries where it is not possible to determine the invoice maturity (the usual maturity is six months) as well as past due receivables for which separate maturity cannot be determined.

3.3 Market risk

Market risk includes 3 types of risks: currency risk, interest rate risk and price risk. The Company did not own any financial instruments as at 31 December 2007 (31 December 2006) that would expose the Company to commodity risk.

Developments on the financial markets are considered as the most significant risk factor. In particular, the fluctuation of exchange rates represents the most significant risk in that the Company sells its products, and purchases material, parts and services concurrently in various foreign currencies. Therefore the foreign exchange rate fluctuation will have the most significant influence on the revenues, costs and competitiveness of the Company. The Company actively manages this risk through continually updated market analysis, worldwide procurement of material and equipment and production of its products in the sales regions.

The exchange rate trends for all currencies are discussed with detailed comparisons of the relationships between CZK, EUR and USD, independently of the analysis of macroeconomic data above, for all countries in which the Company, its subsidiaries and its customers trade. Presentations are made of the actual exchange rate movements, their prospects as well as the effect of the exchange rates on the profit of the Company. This part of meeting approaches to the considerations about hedging of exchange and interest rate risk. The actual status of hedging from the perspective of foreign currency plans (currently with a 3-year outlook) is discussed and the strategy of hedging for each currency for the period based on the expected volume and desired exchange rate is particularised. A part of the discussions is represented by the reporting of development in liquid resources in the individual group companies, liquidity, drawing of credit lines and their overall availability for the individual companies in required currencies. On the strategic level possibilities of utilising of spare liquidity not only externally, but also within the Volkswagen Group are considered in order to adhere to all requirements of achieving sufficient liquidity and consequently to ensure maximum possible contribution of the spare liquidity to the financial result without additional risks.

The Company also incorporates the use of standard derivative hedging instruments in its control of foreign 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. Future cash flows and hedges are predicted for a three year period. Cash outflows in each currency are evaluated against cash realisations in the same currency. Current predictions of currency developments are regularly evaluated against the functional currency, the Czech Crown (CZK). Forward exchange contracts for sales and purchases, as well as currency swaps, are permitted as part of the hedging directive valid for the entire Volkswagen Group, which defines the basic parameters of the hedging policy.

Hedging contracts are concluded in the name of the Company by way of the Treasury Department of the Volkswagen Group.

The most important trading currencies are the EUR, USD, GBP and PLN. In addition to these currencies, currencies of the other European and non-European markets are hedged. In 2007 two new currencies RUB and AUD started to be hedged.

Similarly to the exchange rate risk, the Company actively controls the potentially negative influence of the movement in interest rates that the Company is exposed to within its business activities. The exposure to interest rate risk arises from mid-term and long-term liabilities of the Company, especially issued bonds denominated in CZK. Interest rate swaps are used to hedge against cash flow risks in this area.

The Company applies hedge accounting to account for the instruments and underlying in the area of hedging of currency and interest rate risks.

The current development on world markets in relation to mineral resources has become increasingly influential on the Company results, and therefore management are becoming more attuned to the risks. Due to the continuous increase in the prices of the raw material commodities, price volatility and limited accessibility to specific commodities, management has aimed to eliminate these risks through target risk management strategies. In this regard, utilisation of alternative production materials and procedures as well as utilisation of recycled material is being examined. In addition, emphasis is placed on extending the international supply chain in co-operation with the Volkswagen Group. High risk commodities include primarily aluminium, copper, palladium, lead, platinum and rhodium. Those commodities identified as high risk are controlled at the Volkswagen Group level through the long term supply contracts with the suppliers. All commodity derivative hedging transactions are concluded centrally in the name of the company VOLKSWAGEN AG and therefore are not financial instruments of the Company.

3.3.1 Derivative financial instruments

Nominal and fair value of derivates (CZK million)

	Nominal value 31 December 2007		Nominal value 31 December 2006		Fair value 31 December 2007		Fair value 31 December 2006	
	Derivatives with positive fair value	Derivatives with negative fair value	Derivatives with positive fair value	Derivatives with negative fair value	Positive	Negative	Positive	Negative
Interest rate instruments:								
Interest rate swaps – cash flow hedging	2,000	–	–	5,000	11	–	–	68
Currency instruments:								
Currency forwards – cash flow hedging	23,892	14,219	25,920	19,271	1,821	307	1,157	755

The fixed interest rates for interest rate swaps was increased from 3.39% to 4.10% as at 31 December 2007 (2006: 3.39% to 4.10%).

Volume of hedged cash flows (CZK million)

	Within 1 year		1–5 years	
Balance as at 31 December 2006	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Interest risk exposure				
Hedging of liabilities	(149)	(28)	(220)	(40)
Currency risk exposure				
Hedging of receivables	25,151	808	5,514	222
Hedging of liabilities	(12,713)	(612)	(156)	(16)
Total	**12,289**	**168**	**5,138**	**166**

	Within 1 year		1–5 years	
Balance as at 31 December 2007	**Volume of hedged cash flows**	**Fair value of hedging derivatives**	**Volume of hedged cash flows**	**Fair value of hedging derivatives**
Interest risk exposure				
Hedging of liabilities	(83)	4	(178)	7
Currency risk exposure				
Hedging of receivables	20,294	1,283	5,717	494
Hedging of liabilities	(7,053)	(252)	(2,848)	(11)
Total	**13,158**	**1,035**	**2,691**	**490**

3.4 Sensitivity analysis

3.4.1 Sensitivity to exchange rates

The Company is exposed to the foreign currency risk arising mainly from transactions performed with EU countries (EUR) and with the subsidiary SAIPL located in India (USD). 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 only includes unpaid financial assets and liabilities denominated in foreign currencies, and measures the impact from recalculation of these items as at the balance sheet date by using adjusted exchange rates published by the Czech National Bank. The Company considers the movements of exchange rates against CZK in the following period +10% (appreciation of CZK) and –10% (depreciation of CZK) as possible.

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

The following table presents possible impact on profit and loss and on equity before tax of expected possible appreciation (+10%) or depreciation (–10%) of CZK to foreign currencies:

2006 (CZK million)	**CZK appreciation by 10%**	**CZK depreciation by 10%**
Profit and Loss		
Non-derivative financial assets and liabilities	420	(420)
Equity		
Derivative financial assets and liabilities	1,744	(1,744)

2007 (CZK million)	**CZK appreciation by 10%**	**CZK depreciation by 10%**
Profit and Loss		
Non-derivative financial assets and liabilities	502	(502)
Equity		
Derivative financial assets and liabilities	1,577	(1,577)

Should the CZK appreciate against other currencies by 10% (based on the assumption of other variables remaining unchanged) the impact in 2007 on profit before tax would be an increase of CZK +502 million (2006: CZK +420 million) and on other parts of equity CZK +1,577 million (2006: CZK +1,744 million), which is mainly due to the revaluation of unpaid trade payables denominated in EUR and changes in fair value of foreign currency forwards designated for hedging of future cash flows.

Should the CZK depreciate against other currencies by 10% (based on the assumption of other variables remaining unchanged) the impact in 2007 on profit before tax would be a decrease of CZK –502 million (2006: CZK –420 million) and on other parts of equity CZK –1,577 million (2006: CZK –1,744 million), which is mainly due to the revaluation of unpaid trade payables denominated in EUR and changes in fair value of foreign currency forwards designated for hedging of future cash flows.

3.4.2 Sensitivity to interest rates

The Company is exposed to interest rate risk mainly in relation to short-term loans provided to Volkswagen Group companies and due to the existence of financial liabilities arising from the title of issued bonds with floating interest rate. Interest rate risk on the issued bonds is eliminated by interest rate swaps.

The analysis of sensitivity to changes in interest rates was based on exposure to derivative financial assets and liabilities as at the balance sheet date, as well as to non-derivative financial assets and liabilities. The Company assumes possible movements of the return curve in the following period by +/– 100 basis points. The Company is most sensitive to movements of the CZK return 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 return curve. For granted loans and issued bonds the impact on profit and loss is determined on the basis of defined change in the interest rate, which arose at the beginning of the accounting period and based on the assumption that no other changes in the interest rate occurred during the entire accounting period. Other non-derivative financial assets and liabilities are not considered to be sensitive to interest rate movements.

The following table presents the possible impact on profit and loss and on equity before tax of an expected increase (+100 basis points) or decrease (−100 basis points) of interest rates:

2006 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Profit and Loss		
Non-derivative financial assets and liabilities	208	(208)
Derivative financial assets and liabilities	45	(45)
Total	**253**	**(253)**
Equity		
Derivative financial assets and liabilities	78	(82)

2007 (CZK million)	Interest rate increased by 100 basis points	Interest rate decreased by 100 basis points
Profit and Loss		
Non-derivative financial assets and liabilities	262	(262)
Derivative financial assets and liabilities	20	(20)
Total	**282**	**(282)**
Equity		
Derivative financial assets and liabilities	44	(46)

In the event that interest rates increase by 100 basis points and other variables remain unchanged, the impact on the profit before tax for the accounting period ending at 31 December 2007 would be CZK +282 million (2006: CZK +253 million) and on other components of equity CZK +44 million (2006: CZK +78 million).

In the event that interest rates decrease by 100 basis points and other variables remain unchanged, the impact on the profit before tax for the accounting period ending at 31 December 2007 would be CZK −282 million (2006: CZK −253 million) and on other components of equity CZK −46 million (2006: CZK −82 million).

3.5 Capital risk management

The optimal capitalisation of the Company is the compromise between two interests – the return on capital and the ability to meet all liabilities when they become due. The Company uses the index of Return on capital employed to identify the capital return.

The Return on capital employed is defined by the ratio of operating profit after notional tax and the value of capital employed that was utilised to generate the operating revenue. The notional tax obligation is determined based on the long term effective tax rate of the Volkswagen Group of 35%. The capital employed is calculated as the average value of operating assets (property, plant and equipment intangible assets, inventories, trade receivables and the part of other receivables, which is presented under the category other) less non-interest bearing liabilities (trade payables except advance payments received and except uninvoiced deliveries).

Return on capital employed of the Company (CZK million)

	2007	2006
Operating profit before tax	19,021	13,776
Notional income tax (35%)*	6,657	4,822
Operating profit after notional tax	**12,364**	**8,954**
Capital employed	**52,653**	**51,861**
Return on capital employed (%)	**23.5**	**17.3**

* long-term effective tax rate of the Volkswagen Group

4. Segment reporting

Primary reporting format – business segments
At the end of 2007, the Company has identified only one business segment – development, production and sale of the passenger and utility cars, engines and original parts and car accessories. Other activities do not constitute a separate reportable segment as their financial results, sales and total assets are not material in comparison to the business segment identified.

Secondary reporting format – geographical segments
The Company head office and main production facilities are situated in the Czech Republic.

Sales are generated from four basic geographical regions: the Czech Republic; Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa/ Australia.

2006	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – based on location of customers	25,631	111,347	41,314	11,524	**189,816**
Costs incurred to acquire segment assets	11,279	–	–	–	**11,279**
Assets – according to their location	96,640	198	237	360	**97,435**

2007	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – based on location of customers	26,117	122,798	49,390	12,721	**211,026**
Costs incurred to acquire segment assets	13,397	–	–	–	**13,397**
Assets – according to their location	103,688	198	535	1,140	**105,561**

* Overseas/Asia/Africa/Australia region is not considered to be a region with similar factors of economic environment and therefore is reported as Unallocated.

5. Intangible assets (CZK million)

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance at 1.1.2006	**19,366**	**3,809**	**2,868**	**26,043**
Additions	624	2,137	205	2,966
Disposals	–	–	(102)	(102)
Transfers	2,992	(2,992)	(13)	(13)
Balance at 31.12.2006	**22,982**	**2,954**	**2,958**	**28,894**
Amortization and cumulative impairment losses				
Balance at 1.1.2006	**(11,493)**	**–**	**(1,462)**	**(12,955)**
Amortisation	(2,367)	–	(430)	(2,797)
Disposals	–	–	91	91
Balance at 31.12.2006	**(13,860)**	**–**	**(1,801)**	**(15,661)**
Carrying amount at 31.12.2006	**9,122**	**2,954**	**1,157**	**13,233**

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance at 1.1.2007	**22,982**	**2,954**	**2,958**	**28,894**
Additions	306	2,791	545	3,642
Disposals	–	–	(158)	(158)
Transfers	924	(924)	2	2
Balance at 31.12.2007	**24,212**	**4,821**	**3,347**	**32,380**
Amortization and cumulative impairment losses				
Balance at 1.1.2007	**(13,860)**	**–**	**(1,801)**	**(15,661)**
Amortisation	(2,450)	–	(428)	(2,878)
Disposals	–	–	67	67
Balance at 31.12.2007	**(16,310)**	**–**	**(2,162)**	**(18,472)**
Carrying amount at 31.12.2007	**7,902**	**4,821**	**1,185**	**13,908**

Other intangible assets include mainly rights to use the equipment of the Volkswagen Group for the development of new platforms and software.

Amortisation of intangible assets of CZK 2,701 million (2006: CZK 2,602 million) is included in the cost of sales, CZK 12 million (2006: CZK 57 million) in distribution expenses, and CZK 165 million (2006: CZK 138 million) in administrative expenses.

The following amounts were recognised as research and development expenses (CZK million):

	2007	**2006**
Research and expensed development costs	2,362	1,940
Amortisation of development costs	2,450	2,367
Research and development costs recognised in the income statement	**4,812**	**4,307**

6. Property, plant and equipment (CZK million)

	Land and buildings	**Technical equipment and machinery**	**Tooling, office and other equipment**	**Payments on account and assets under construction**	**Total**
Costs					
Balance at 1.1.2006	**23,208**	**49,596**	**31,056**	**6,941**	**110,801**
Additions	660	1,687	2,291	3,392	8,030
Disposals	(209)	(967)	(1,714)	–	(2,890)
Transfers	1,185	1,548	3,073	(5,793)	13
Balance at 31.12.2006	**24,844**	**51,864**	**34,706**	**4,540**	**115,954**
Depreciation and cumulative impairment losses					
Balance at 1.1.2006	**(6,567)**	**(37,751)**	**(25,529)**	**–**	**(69,847)**
Depreciation	(1,014)	(5,268)	(3,410)	–	(9,692)
Additions to cumulative impairment losses	–	(67)	–	–	(67)
Disposals and transfers	132	1,126	1,692	–	2,950
Balance at 31.12.2006	**(7,449)**	**(41,960)**	**(27,247)**	**–**	**(76,656)**
Carrying amount at 31.12.2006	**17,395**	**9,904**	**7,459**	**4,540**	**39,298**

	Land and buildings	**Technical equipment and machinery**	**Tooling, office and other equipment**	**Payments on account and assets under construction**	**Total**
Costs					
Balance at 1.1.2007	**24,844**	**51,864**	**34,706**	**4,540**	**115,954**
Additions	610	2,114	2,328	4,703	9,755
Disposals	(89)	(518)	(933)	–	(1,540)
Transfers	796	1,269	1,365	(3,432)	(2)
Balance at 31.12.2007	**26,161**	**54,729**	**37,466**	**5,811**	**124,167**
Depreciation and cumulative impairment losses					
Balance at 1.1.2007	**(7,449)**	**(41,960)**	**(27,247)**	**–**	**(76,656)**
Depreciation	(1,015)	(4,334)	(3,366)	–	(8,715)
Reversal of cumulative impairment losses	–	78	–	–	78
Disposals and transfers	21	539	889	–	1,449
Balance at 31.12.2007	**(8,443)**	**(45,677)**	**(29,724)**	**–**	**(83,844)**
Carrying amount at 31.12.2007	**17,718**	**9,052**	**7,742**	**5,811**	**40,323**

Total depreciation of the buildings and equipment of CZK 8,221 million (2006: CZK 9,015 million) is included in the cost of sales, CZK 190 million (2006: CZK 197 million) in distribution expenses, and CZK 304 million (2006: CZK 480 million) in administrative expenses.

7. Investments in subsidiaries (CZK million)

	Country of incorporation	Book value 31.12.2007	Book value 31.12.2006	Shareholding %
Subsidiaries:				
ŠkodaAuto Deutschland GmbH	Germany	198	198	100
ŠKODA AUTO Slovensko, s.r.o.	Slovakia	49	49	100
Skoda Auto Polska S.A.	Poland	1	1	51
Skoda Auto India Private Ltd.	India	1,140	360	100
Total		**1,388**	**608**	

The subsidiaries' results are included in the consolidated results of the Company.

The subsidiaries in which the Company has a financial investment paid a dividend to the Company in the amount of CZK 85 million (2006: CZK 13 million).

In 2007 the Company increased the share capital of the subsidiary Skoda Auto India Private Ltd. by CZK 780 million.

8. Investment in associate (CZK million)

	2007	2006
OOO VOLKSWAGEN RUS:		
Total Assets*	4,286	481
Total Liabilities*	3,358	29
Total Revenues*	398	6
Loss	228	21
Statutory shareholding in %	30.0	37.5
Share of profits or losses in %	37.5	37.5

* Translated with the exchange rate as at 31 December 2007.

On 26 October 2006, the Company acquired a 37.5% share in OOO VOLKSWAGEN RUS (Kaluga, Russian Federation) at a cost of CZK 187 million. In 2007 the Company invested an additional CZK 298 million to the share capital of its associate OOO VOLKSWAGEN RUS. Additionally, The European Bank for Reconstruction and Development (EBRD), a new investor in OOO VOLKSWAGEN RUS, contributed to the statutory equity funds, which resulted in a decrease of statutory shareholding of the Company to 30%. The Company's share of profits or losses of the associate remained unchanged at 37.5%.

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

	Loans and receivables		Available for sale financial assets		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2006	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Other receivables and financial assets:									
Loans to employees	16	228	–	–	–	–	–	–	**244**
Loans to companies within Volkswagen Group (note 30)	23,721	–	–	–	–	–	–	–	**23,721**
Loans to associates	250	–	–	–	–	–	–	–	**250**
Tax receivables (except income tax)	–	–	–	–	–	–	2,593	–	**2,593**
Positive fair value of financial assets	–	–	–	–	935	222	–	–	**1,157**
Available for sale financial assets	–	–	–	160	–	–	–	–	**160**
Others	159	–	–	–	–	–	199	–	**358**
Total	**24,146**	**228**	**–**	**160**	**935**	**222**	**2,792**	**–**	**28,483**
Trade receivables:									
Third parties	2,492	–	–	–	–	–	–	–	**2,492**
Subsidiaries	609	–	–	–	–	–	–	–	**609**
Other related parties	2,258	–	–	–	–	–	–	–	**2,258**
Total	**5,359**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,359**

	Loans and receivables		Available for sale financial assets		Financial instruments designated as hedging instruments		Others*		Total
Balance as at 31 December 2007	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	**< 1 year**	**> 1 year**	
Other receivables and financial assets:									
Loans to employees	13	287	–	–	–	–	–	–	**300**
Loans to companies within Volkswagen Group (note 30)	25,338	–	–	–	–	–	–	–	**25,338**
Loans to associates	254	–	–	–	–	–	–	–	**254**
Tax receivables (except income tax)	–	–	–	–	–	–	2,730	–	**2,730**
Positive fair value of financial assets	–	–	–	–	1,327	505	–	–	**1,832**
Available for sale financial assets	–	–	–	6	–	–	–	–	**6**
Others	357	–	–	–	–	–	217	–	**574**
Total	**25,962**	**287**	**–**	**6**	**1,327**	**505**	**2,947**	**–**	**31,034**
Trade receivables:									
Third parties	3,085	–	–	–	–	–	–	–	**3,085**
Subsidiaries	917	–	–	–	–	–	–	–	**917**
Other related parties	3,266	–	–	–	–	–	–	–	**3,266**
Total	**7,268**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,268**

* The category Others does not meet a definition of financial instruments in terms of IAS 32.

Fair value of the Loan to employees was estimated to be CZK 287 million as at 31 December 2007 (2006: CZK 232 million). The carrying amount including impairment of any of the category Other financial assets which are not carried at fair value approximates fair value.

The weighted effective interest rate based on the carrying amount of loans provided to Volkswagen Group companies as of 31 December 2007 was 3.88% (31 December 2006: 2.43%).

Other receivables and financial assets include mainly other receivables from employees and advances paid. There are no significant restrictions regarding the rights of use imposed on the other receivables and financial assets.

The allowance for the impairment of trade receivables of CZK 245 million (2006: CZK 268 million) has been included in the presented values of trade receivables. The carrying amount of trade receivables approximates the fair value at the balance sheet date after the valuation allowance is taken into account.

10. Inventories (CZK million)

Structure of the inventories	**Carrying value 31.12.2007**	**Carrying value 31.12.2006**
Raw materials, consumables and supplies	2,531	2,687
Work in progress	1,695	1,819
Finished products	2,483	2,786
Goods	1,745	1,627
Total inventories	**8,454**	**8,919**

The amount of inventories recognised as an expense during 2007 was CZK 176,237 million (2006: CZK 163,958 million).

11. Cash (CZK million)

	31.12.2007	31.12.2006
Cash in hand	3	3
Bank accounts	2,698	1,345
Total	**2,701**	**1,348**

The weighted effective interest rate based on the carrying amount of bank deposits as of 31 December 2007 was 3.54% (31 December 2006: 2.72%).

12. Share capital

The issued share capital consists of 1,670,885 ordinary shares at par value of CZK 10,000 per share. Volkswagen International Finance N.V., Amsterdam, The Kingdom of the Netherlands, holds 100% of the shares in the Company. The shares were purchased from VOLKSWAGEN AG on 18 July 2007 within the Volkswagen Group restructuring plan. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of VOLKSWAGEN AG.

13. Other reserves (CZK million)

	31.12.2007	31.12.2006
Reserves for cash flow hedges*	1,173	119
Statutory reserve fund	1,836	1,292
Funds contributed by owner	9	–
Total other reserves	**3,018**	**1,411**

* Net of deferred tax from financial derivatives.

Movement in reserve for cash flow hedges (reserve representing capital maintenance):

Balance as at 1 January 2006 (CZK million)	**(523)**
Total change in fair value in the period	828
Deferred tax on change in fair value	(200)
Total transfers to net profit in the period	18
Deferred tax on transfers to net profit	(4)
Balance as at 31 December 2006	**119**

Balance as at 1 January 2007 (CZK million)	**119**
Total change in fair value in the period	1,329
Deferred tax on change in fair value	(250)
Total transfers to net profit in the period	(38)
Deferred tax on transfers to net profit	13
Balance as at 31 December 2007	**1,173**

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

In compliance with the relevant regulations of the commercial code, the unconsolidated profit of the Company for the year 2007 (determined in accordance with IFRS) is going to be appropriated based on the decision of the Company's annual general meeting.

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

Balance as at 31 December 2006	Financial liabilities carried at amortised costs < 1 year	Financial liabilities carried at amortised costs > 1 year	Financial instruments designated as hedging instruments < 1 year	Financial instruments designated as hedging instruments > 1 year	Others* < 1 year	Others* > 1 year	Total
Financial liabilities							
Bonds	2,998	1,995	–	–	–	–	**4,993**
Loans from Volkswagen Group companies	974	–	–	–	–	–	**974**
Total	**3,972**	**1,995**	**–**	**–**	**–**	**–**	**5,967**
Other liabilities							
Negative fair value of financial derivatives	–	–	766	57	–	–	**823**
Other tax liabilities	–	–	–	–	–	–	**–**
Liabilities to employees	–	–	–	–	1,618	–	**1,618**
Social security	–	–	–	–	272	–	**272**
Other	37	–	–	–	–	–	**37**
Total	**37**	**–**	**766**	**57**	**1,890**	**–**	**2,750**
Liabilities relating to current income taxes	**–**	**–**	**–**	**–**	**1,645**	**–**	**1,645**
Trade liabilities to:							
Third parties	14,212	–	–	–	603	–	**14,815**
Subsidiares	137	–	–	–	997	–	**1,134**
Other related parties	2,183	–	–	–	–	–	**2,183**
Total	**16,532**	**–**	**–**	**–**	**1,600**	**–**	**18,132**

Balance as at 31 December 2007	Financial liabilities carried at amortised costs < 1 year	Financial liabilities carried at amortised costs > 1 year	Financial instruments designated as hedging instruments < 1 year	Financial instruments designated as hedging instruments > 1 year	Others* < 1 year	Others* > 1 year	Total
Financial liabilities							
Bonds	14	1,997	–	–	–	–	**2,011**
Loans from Volkswagen Group companies	1,129	–	–	–	–	–	**1,129**
Total	**1,143**	**1,997**	**–**	**–**	**–**	**–**	**3,140**
Other liabilities							
Negative fair value of financial derivatives	–	–	296	11	–	–	**307**
Other tax liabilities	–	–	–	–	–	–	**–**
Liabilities to employees	–	–	–	–	1,674	–	**1,674**
Social security	–	–	–	–	318	–	**318**
Other	12	–	–	–	–	–	**12**
Total	**12**	**–**	**296**	**11**	**1,992**	**–**	**2,311**
Liabilities relating to current income taxes	**–**	**–**	**–**	**–**	**2,354**	**–**	**2,354**
Trade liabilities to:							
Third parties	15,149	–	–	–	376	–	**15,525**
Subsidiares	24	–	–	–	239	–	**263**
Other related parties	3,447	–	–	–	–	–	**3,447**
Total	**18,620**	**–**	**–**	**–**	**615**	**–**	**19,235**

* The category Others includes items that are not financial instruments in terms of IAS 32.

The fair value of issued bonds is determined based on quoted market prices as at 31 December 2007. The fair value of the issued bonds amounts to CZK 2,000 million (2006: CZK 5,000 million).

The fair value of bank loans from Volkswagen approximates the carrying value.

The detailed information relating to the liabilities arising out of financial derivates can be found under note 3.3.1.

The carrying value for other classes of current liabilities (other current financial liabilities, trade payables and current tax payables) approximates the fair value in all material respects.

Financial liabilities in the year 2006 also included borrowings from Volkswagen Group companies. These borrowings are payments from a factoring company within the Volkswagen Group that results from factored receivables from companies outside the Volkswagen Group where the risks and rewards were not substantially transferred to the factoring company.

Financial liabilities in the year 2007 include liabilities to a factoring company within the Volkswagen Group which have arisen from the transfer of the Volkswagen intercompany payables to the factoring company within the Volkswagen Group.

None of the financial liabilities are secured by a lien.

The Company issued bonds with a total nominal value of CZK 10 billion on 26 October 2000, each in a nominal value of CZK 100,000. The bonds are publicly traded without restrictions of transferability on the secondary market of the Prague Stock Exchange. The bonds were issued pursuant to Czech legislation, are governed by Czech law and are traded at the Prague Stock Exchange. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat at Na Příkopě 14, 115 20, Prague 1, was the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
3rd tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		**2,000**		**20,000**	

Interests and principal of bonds are paid only in CZK through the administrator:

	ISIN	Due date for the principal	Due date for interest	Bond yield
3rd tranche	CZ0003501199	26. 10. 2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

The first instalment of CZK 5,000 million related to the five-year issued bonds was settled at 26 October 2005. The second instalment of CZK 3,000 million was settled at 26 October 2007.

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

Carrying amount at 31. 12. 2006

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1–5 years	Maturity > 5 years	Total
CZK	floating	< 1 year	2.97%	3,000	2,998	–	–	**2,998**
CZK	floating	1–5 years	3.05%	2,000	–	1,995	–	**1,995**
EUR	floating	< 1 year	–	974	974	–	–	**974**
Total financial liabilities				**5,974**	**3,972**	**1,995**	**–**	**5,967**

Carrying amount at 31.12.2007

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on nominal amount	Nominal amount	Maturity < 1 year	Maturity 1–5 years	Maturity > 5 years	Total
CZK	floating	1–5 years	3.92%	2,000	14	1,997	–	**2,011**
EUR	floating	< 1 year	–	1,129	1,129	–	–	**1,129**
Total financial liabilities				**3,129**	**1,143**	**1,997**	**–**	**3,140**

15. Deferred tax liabilities and assets (CZK million)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against current tax liabilities, and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Balance at 31.12.2006	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(111)	(2,408)	**(2,519)**

Balance at 31.12.2007	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(140)	(1,637)	**(1,777)**

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

Deferred tax liabilities:

	Depreciation	**Financial derivates**	**Provisions**	**Other**	**Total**
Balance at 1. 1. 2006	**(4,500)**	**–**	**–**	**(7)**	**(4,507)**
Credited/(debited) to the income statement	207	–	–	56	263
Charged to equity	–	(79)	–	(24)	(103)
Balance at 31. 12. 2006	**(4,293)**	**(79)**	**–**	**25**	**(4,347)**
Credited/(debited) to the income statement	865	–	–	(25)	840
Charged to equity	–	(209)	–	–	(209)
Balance at 31. 12. 2007	**(3,428)**	**(288)**	**–**	**–**	**(3,716)**

Deferred tax assets:

	Depreciation	**Financial derivates**	**Provisions**	**Other**	**Total**
Balance at 1.1.2006	**–**	**103**	**1,587**	**–**	**1,690**
Credited/(debited) to the income statement	–	–	241	–	241
Charged to equity	–	(103)	–	–	(103)
Balance at 31.12.2006	**–**	**–**	**1,828**	**–**	**1,828**
Credited/(debited) to the income statement	–	–	84	48	132
Charged to equity	–	–	–	(21)	(21)
Balance at 31.12.2007	**–**	**–**	**1,912**	**27**	**1,939**

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee benefits	Provisions for the disposal of end-of-life vehicles	Other provisions	Total
Balance at 1.1.2006	**5,608**	**827**	**443**	**58**	**552**	**7,488**
Utilised	(2,725)	(808)	(117)	–	(59)	(3,709)
Additions	3,740	770	217	12	126	4,865
Interest costs	126	–	–	8	–	134
Reversals	(28)	(19)	–	–	(316)	(363)
Balance at 1.1.2007	**6,721**	**770**	**543**	**78**	**303**	**8,415**
Utilised	(2,649)	(750)	(182)	–	(88)	(3,669)
Additions	4,151	652	486	8	213	5,510
Interest costs	47	–	–	(7)	–	40
Reversals	–	(20)	–	–	(64)	(84)
Balance at 31.12.2007	**8,270**	**652**	**847**	**79**	**364**	**10,212**

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

Balance at 31.12.2006	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	2,207	4,514	6,721
Provisions for other obligations arising from sales	770	–	770
Provisions for employee benefits	171	372	543
Provisions for the disposal of end-of-life vehicles	78	–	78
Other provisions	303	–	303
Total	**3,529**	**4,886**	**8,415**

Balance at 31.12.2007	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	2,437	5,833	8,270
Provisions for other obligations arising from sales	652	–	652
Provisions for employee benefits	184	663	847
Provisions for the disposal of end-of-life vehicles	79	–	79
Other provisions	364	–	364
Total	**3,716**	**6,496**	**10,212**

Provisions for warranty claims increased mainly due to higher sales of cars.

Provisions for disposal of end-of-life vehicles relate to costs of liquidation of end-of-life vehicles according to EU guideline no. 200/53/EC and are determined mainly on the basis of registered cars, official statistics and expected costs of the cars ecological scraping.

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

Provisions for employee expenses include mainly provisions for other long-term employee benefits and severance payments.

Other provisions include mainly provision for retrospective changes in purchase prices, provision for legal fees, penalty interest and other risk followed from the legal proceedings.

The Company is not involved in any legal cases or arbitration proceedings that could have a significant impact on the financial position and the financial results (financial statements) of the Company and there are no proceedings expected in the near future. The Company provides for the probable expenses for existing legal and arbitration proceedings by means of a relevant provision.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement also comprise, in addition to cash reported in the balance sheet, short- term loans with original maturity of less than three months of CZK 25,592 million as at 31 December 2007 (31 December 2006: CZK 23,971 million). 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, non-current financial assets, as well as to capitalised development cost.

Financing activities include in addition to the outflows and inflows of cash from dividend payments, redemption of bonds and factoring liabilities, also outflows and inflows from other borrowings.

18. Sales (CZK million)

	2007	2006
Cars	189,283	170,496
Spare parts and accessories	11,659	11,252
Supplies of components within Volkswagen Group	6,703	5,995
Other sales	3,381	2,073
Total	**211,026**	**189,816**

19. Other operating income (CZK million)

	2007	2006
Foreign exchange gains	1,889	1,564
Income from foreign currency trades	1,262	881
Gains on non-current assets disposal	17	44
Release of provisions	9	315
Reversal of receivables’ impairment losses	32	186
Other	545	1,122
Total	**3,754**	**4,112**

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

20. Other operating expenses (CZK million)

	2007	2006
Foreign exchange losses	1,887	1,456
Losses from foreign currency trades	1,106	733
Receivables’ impairment losses and write-offs	33	132
Other	203	56
Total	**3,229**	**2,377**

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

2006	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Operating income						
Foreign exchange gains	580	–	984	–	–	**1,564**
Revenue from exchange trades	–	–	–	823	58	**881**
Total	**580**	**–**	**984**	**823**	**58**	**2,445**
Other operating expenses						
Foreign exchange losses	1,131	–	325	–	–	**1,456**
Expenses from exchange trades	–	–	–	673	60	**733**
Total	**1,131**	**–**	**325**	**673**	**60**	**2,189**
Net gains/(losses)	**(551)**	**–**	**659**	**150**	**(2)**	**256**

2006	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Financial income						
Interest income	401	–	–	–	–	**401**
Foreign exchange gains	33	–	–	–	–	**33**
Other financial incomes	–	17	–	–	–	**17**
Total	**434**	**17**	**–**	**–**	**–**	**451**
Financial expenses:						
Interest expense	–	–	303	168	134	**605**
Foreign exchange losses	62	–	–	–	–	**62**
Total	**62**	**–**	**303**	**168**	**134**	**667**
Net gains/(losses)	**372**	**17**	**(303)**	**(168)**	**(134)**	**(216)**

2007	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Operating income						
Foreign exchange gains	805	–	1,084	–	–	**1,889**
Revenue from exchange trades	–	–	–	1,191	71	**1,262**
Total	**805**	**–**	**1,084**	**1,191**	**71**	**3,151**
Other operating expenses						
Foreign exchange losses	1,261	–	626	–	–	**1,887**
Expanses from exchange trades	–	–	–	1,029	77	**1,106**
Total	**1,261**	**–**	**626**	**1,029**	**77**	**2,993**
Net gains/(losses)	**(456)**	**–**	**458**	**162**	**(6)**	**158**

2007	Loans and receivables	Financial assets available for sale	Financial liabilities designated as at fair value through profit and loss	Financial instruments designated as hedging instruments	Other assets and liabilities*	Total
Financial income						
Interest income	938	–	–	–	6	**944**
Foreign exchange gains	43	–	–	–	–	**43**
Other financial income	–	27	–	–	85	**112**
Total	**981**	**27**	**–**	**–**	**91**	**1,099**
Financial expenses:						
Interest expense	–	–	392	124	47	**563**
Foreign exchange losses	111	–	–	–	–	**111**
Total	**111**	**–**	**392**	**124**	**47**	**674**
Net gains/(losses)	**870**	**27**	**(392)**	**(124)**	**44**	**425**

* Other assets and liabilities: include mainly gains and losses from spots, dividend income from subsidiaries and discounting of warranty provision

22. Income tax (CZK million)

	2007	2006
Current tax expense	**4,526**	**3,182**
of which: adjustment of tax base of prior period	(196)	(110)
Deferred tax expense/(income)	**(972)**	**(504)**
Income tax total	**3,554**	**2,678**

Statutory income tax rate in the Czech Republic for the 2007 assessment period was 24% (2006: 24%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory note. Effective since 1 January 2008 the rate in the Czech Republic has changed to 21%, effective from 1 January 2009 to 20% and effective from 1 January 2010 to 19%.

As at 31 December 2007, deferred income taxes were measured at a tax rate of 19.04% (2006: 24%) that corresponds with the weighted average of 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 expenses (CZK million):

	2007	2006
Profit before tax	19,446	13,560
Expected income tax expense	**4,667**	**3,254**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(64)	(165)
Expenses not deductible for tax purposes	154	295
Tax alowances and investment tax credits	(515)	(572)
Prior-period current tax expense	(196)	(110)
Effect of tax rate changes	(388)	–
Other taxation effects	(104)	(24)
Effective income tax expense	**3,554**	**2,678**
Effective income tax rate	18%	20%

23. Investment incentives

From the total maximum granted amount of investment incentives of CZK 428 million for the project Roomster the Company utilized the total amount of CZK 285 million in 2005–2007. In 2007 the Company utilized investment incentives for this project in the amount of CZK 56 million (2006: CZK 200 million) in the form of tax credit of CZK 19 million and in the form of the transfer of a technically equipped area at a reduced price of CZK 37 million.

The Company received CZK 27 million in 2007 (2006: CZK 14 million) in the form of a subsidy for entrepreneurial activities as a subvention for the project of development and technological centre.

In accordance with Investment incentives law No. 72/2000 Coll., as amended based on resolution dated on 31 December 2007 the Company was granted an investment incentive for its project of engine production 1.2 TSI in the plant in Mladá Boleslav in the form of investment tax credit. The total maximum subvention of CZK 548 million corresponds to 40% of the total eligible invested costs related to the investment intent.

The Company expects to meet all the requirements related to provision of the investment incentives.

24. Contingent liabilities

The tax authorities may at any time inspect the accounting books and records within fourteen years subsequent to the reported tax year, and may impose additional tax assessments and penalties.

The tax authority carried out a detailed audit of the Company's supporting documentation for income tax return for the 2005 taxable period. The Company's management is not aware of any circumstances that could result in material liabilities arising from the tax audits in the future.

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

Cash outflows relating to commitments for acquisition of non-current tangible and intangible assets existing at the balance sheet date are as follows:

	Payable until year 2008	**Payable 2009–2012**	**31.12.2007**	**31.12.2006**
Investment commitments	5,395	373	5,768	4,460
Leasing installments	205	259	464	173

On the basis of irrevocable operating lease agreements, the Company is allowed to rent different machine equipment. In the case of termination of these agreements, the Company has to terminate them with a maximum six-month notice period.

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

	2007	**2006**
Material costs – raw materials and other supplies, goods and production related services	**152,462**	**139,837**
Employee benefits	**13,425**	**11,882**
Wages	9,697	8,935
Pension benefits	2,378	1,793
Social insurance and other personal costs	1,350	1,154
Depreciation and amortization	**11,594**	**12,489**
Other services	**15,049**	**13,567**
Total cost of goods sold, distribution and administrative expenses	**192,530**	**177,775**

Number of employees		
Number of employees*	**27,508**	**26,697**

* Average number of employees (including temporary employees)

27. Related party transactions

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2007	2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	2,705	2,389
Subsidiaries		
Skoda Auto India Private Ltd.	3,856	4,077
ŠkodaAuto Deutschland GmbH	40,445	36,072
ŠKODA AUTO Slovensko, s.r.o.	6,607	6,601
Skoda Auto Polska S.A.	10,110	8,470
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH Mosel	293	91
VOLKSWAGEN Group United Kingdom Ltd.	13,756	13,502
Groupe VOLKSWAGEN France s.a.	6,779	5,550
VOLKSWAGEN SLOVAKIA, a.s.	961	1,264
Volkswagen Navarra, S.A.	1,397	1,485
Volkswagen Group Sverige AB	3,814	3,487
Import VOLKSWAGEN Group s.r.o.	987	–
Volkswagen Group Rus OOO	6,185	3,725
Volkswagen do Brasil S.A.	1,215	1,162
AUDI HUNGARIA MOTOR Kft.	1	–
AUDI AG	26	4
SEAT, S.A.	726	547
Volkswagen Group Italia S.p.A	5,651	5,504
Volkswagen Audi España S.A.	8,756	7,736
Gearbox del Prat, S.A.	19	19
Volkswagen Bruxelles S.A.	799	418
Volkswagen Motor Polska Sp. zo.o.	62	5
Volkswagen Logistics GmbH	15	8
VOLKSWAGEN SARAJEVO, d.o.o.	709	579
Volkswagen of South Africa (Pty.) Ltd.	2	5
Shanghai Volkswagen Automotive Co. Ltd.	1,112	62
Volkswagen Original Teile Logistik GmbH	4	6
Volkswagen de Mexico S.A.	1	–
Volkswagen Argentina S.A.	2	–
ŠkoFIN s.r.o.	1,377	112
Volkswagen Poznan Sp.zo.o.	5	1
Volkswagen Sachsen Chemnitz	166	89
Volkswagen Group Australia Ptg. Ltd.	263	–
Volkswagen Wolfsburg – Projekten	49	121
OOO Volkswagen Rus	481	–
Sitech Sp. zo.o.	3	–
ŠKO-ENERGO, s.r.o.	169	138
ŠKO-ENERGO FIN s.r.o.	5	5
AutoVize s.r.o.	174	3
INIS International Service GmbH	2	2
e4t - electronics for transport s.r.o.	2	2
Other related parties		
Bentley Motors TK	–	1
Other related parties	1	5
Total	**119,692**	**103,247**

Sales to Skoda Auto India Private Ltd. include revenues from royalties in the amount of CZK 47 million (2006: CZK 45 million) and revenues based on the technology support agreement for the year 2007 in the amount of CZK 0 million (2006: CZK 132 million).

Besides sales to related parties stated in the table above the Company also realized in 2007 revenue from licence fees of CZK 1,148 million (2006: CZK 120 million) from Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the ultimate parent company VOLKSWAGEN AG.

Dividends received from subsidiaries are disclosed in note 7.

Purchases from related parties (CZK million)

	2007	2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	23,339	21,569
Subsidiaries		
Skoda Auto India Private Ltd.	13	11
ŠkodaAuto Deutschland GmbH	494	640
ŠKODA AUTO Slovensko, s.r.o.	220	139
Skoda Auto Polska S.A.	263	227
Companies controlled by ultimate parent company		
VOLKSWAGEN AG, Hannover	264	213
Volkswagen Sachsen GmbH	2,875	2,907
Volkswagen Versicherungsvermitlungs GmbH	140	140
IAV Ingenieurgesellschaft GmbH	27	50
VOLKSWAGEN Group United Kingdom Ltd.	465	58
Groupe VOLKSWAGEN France s.a.	240	278
VOLKSWAGEN SLOVAKIA, a.s.	180	88
Auto Vision GmbH	6	4
AUDI AG	273	138
VOLKSWAGEN SARAJEVO d.o.o. Vogosca	32	13
AUDI HUNGARIA MOTOR Kft.	13,492	13,000
Import VOLKSWAGEN Group s.r.o.	134	151
SAIC - Volkswagen Sales Company Ltd.	158	4
ŠkoFIN s.r.o.	670	584
Volkswagen Navarra, S.A.	16	35
Volkswagen Group Sverige AB	129	99
SEAT, S.A.	808	755
Volkswagen Group Italia S.p.A	250	401
Volkswagen Audi Espaňa S.A.	279	4
Volkswagen Poznan Sp. z o.o.	278	246
Volkswagen do Brasil Ltda.	16	10
VOTEX, GmbH	18	18
Volkswagen Bordnetze GmbH	–	11
Autostadt GmbH	19	20
Volkswagen de Mexico S.A. de C.V.	86	122
OOO Volkswagen Rus	301	–
VOLKSWAGEN OF AMERICA INC.	23	27
Volkswagen Bruxelles S.A.	–	8
Volkswagen Coaching GmbH	8	4
ŠKO-ENERGO, s.r.o.	1,792	1,669
e4t electronics for transportation s.r.o.	54	48
ŠkoLease s.r.o.	–	17
Volkswagen Argentina S.A.	50	–
Volkswagen Group Services	130	206
Volkswagen Logistics GmbH	1 545	1 512
Other	12	8
Other related parties		
Other related parties	2	43
Total	**49,108**	**45,484**

Receivables from related parties (CZK million)

	31.12.2007	31.12.2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	200	231
Subsidiaries		
Skoda Auto India Private Ltd.	629	524
Skoda Auto Polska S.A.	222	83
ŠKODA AUTO Slovensko, s.r.o.	110	42
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	36	27
VOLKSWAGEN Group United Kingdom Ltd.	138	112
Groupe VOLKSWAGEN France s.a.	104	86
VOLKSWAGEN SLOVAKIA, a.s.	38	105
Volkswagen Navarra, S.A.	54	118
Volkswagen Group Sverige AB	44	21
Volkswagen do Brasil Ltda.	97	139
Import VOLKSWAGEN Group s.r.o.	51	52
Volkswagen Group Rus OOO	801	579
Volkswagen Audi España S.A.	173	63
ŠkoFIN s.r.o.	273	403
AUDI AG	17	–
SEAT, S.A.	95	113
Volkswagen Group Italia S.p.A	74	26
Volkswagen Bruxelles S.A.	159	50
Volkswagen Group Australia Ptg. Ltd.	239	–
OOO Volkswagen Rus	429	–
Other related parties		
Other related parties	244	133
Total	**4,227**	**2,907**

The above mentioned receivable from Skoda Auto India Private Ltd. includes, aside from trade receivables, receivables from licences in the amount of CZK 44 million (as at 31 December 2006: CZK 40 million). In addition to receivables stated in the table above, the Company provided as at 31 December 2007 loans to VOLKSWAGEN AG in the amount of CZK 22,000 million (31 December 2006: CZK 22,100 million), ŠkoFIN s.r.o. in the amount of CZK 3,000 million (31 December 2006: CZK 1,300 million), Import VOLKSWAGEN Group s.r.o. in the amount of CZK 300 million (31 December 2006: CZK 300 million) and ŠKO-ENERGO, s.r.o. of CZK 254 million (31 December 2006: CZK 250 million). Interest from these loans outstanding as at 31 December 2007 was CZK 38 million (31 December 2006: CZK 21 million).

Investment in associate is disclosed in note 8.

Liabilities to related parties (CZK million)

	31.12.2007	31.12.2006
Parent company		
Volkswagen International Finance N.V.	–	–
Ultimate parent company		
VOLKSWAGEN AG	525	299
Subsidiaries		
Skoda Auto India Private Ltd.	1	1
Skoda Auto Polska S.A.	3	99
ŠkodaAuto Deutschland GmbH	255	1,025
ŠKODA AUTO Slovensko, s.r.o.	4	8
Companies controlled by ultimate parent company		
Volkswagen Sachsen GmbH	160	203
Volkswagen Poznan Sp. z o.o.	17	17
VOLKSWAGEN Group United Kingdom Ltd.	186	148
Groupe VOLKSWAGEN France s.a.	62	52
Volkswagen de Mexico, S.A.	21	20
VOLKSWAGEN SLOVAKIA a.s.	18	8
Volkswagen Group Sverige AB	41	–
ŠkoFIN, s.r.o.	42	77
Import VOLKSWAGEN Group s.r.o.	4	20
Volkswagen Audi Espaňa S.A.	91	64
AUDI AG	58	25
AUDI HUNGARIA MOTOR Kft.	787	776
Volkswagen Group Italia S.p.A	132	83
SEAT, S.A.	30	25
Volkswagen Group Services	1,129	974
Volkswagen Logistics GmbH	1,106	252
VOLKSWAGEN OF AMERICA INC.	15	–
Other related parties		
Other related parties	152	115
Total	**4,839**	**4,291**

Information on key management personnel remuneration (CZK million):

	2007	2006**
Salaries and other short-term employee benefits*	313	252
Post-employment benefits	32	20
Share-based payments	2	2
Total	**347**	**274**

The remuneration of the members of the Board of Directors, Supervisory Board and other key management personnel includes in addition to the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also remuneration from other Volkswagen Group companies in exchange for services rendered to the Company. The remuneration from the other Volkswagen Group companies includes also awards to certain key management personnel in a form of share options to VOLKSWAGEN AG's shares.

Key management personnel include members of the Board of Directors, Supervisory Board and managers of the Company having authority and responsibility for planning, directing and controlling the activities of the Company. In 2007, the key management personnel included 53 persons (2006: 53**).

* Salaries and other short-term employee benefits includes besides the remuneration paid, payable or provided by the Company in the form of salaries, bonuses and non-monetary remuneration also health and social insurance paid by employer for employees.

** In 2007 there was a change in the presentation of management personnel expenses. The category of this group of key management members was reassessed in compliance with the definition of key positions in the Company's organisation structure, which resulted in reduction of the key management personnel in 2006 from 77 to 53 persons.
The change in presentation of management personnel had the following impact on comparative figures: the value of Salaries and other short-term employee benefits was decreased by CZK 84 million and the value of Share-based payments was decreased by CZK 4 million.

28. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 22 million (2006: CZK 25 million) and covered the following services.

	2007	**2006**
Audit and other assurance services	13	17
Tax and related services	2	3
Other advisory services	7	5
Total	**22**	**25**

29. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the financial statements for the year ended 31 December 2007.

30. Information about Volkswagen AG 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 the following brand groups:
– Volkswagen with product lines: Volkswagen passenger cars, Škoda, Bentley, Bugatti;
– Audi with product lines: Audi, Seat and Lamborghini;
– Commercial vehicles;
– Financial services and
– Other companies.

The principal activity of Volkswagen Group is the development, production and sale of passenger and commercial vehicles, engines, spare parts and accessories. Financial services are provided by a subsidiary company Volkswagen Financial Services AG. Škoda Auto and its subsidiaries (ŠkodaAuto Deutschland GmbH, Skoda Auto Polska S.A., ŠKODA AUTO Slovensko, s.r.o., Skoda Auto India Private Ltd.) and associate OOO VOLKSWAGEN RUS are included in the consolidation of Volkswagen Group's financial statements. These separate financial statements, and other information relating to the Volkswagen Group, are available in the annual report of VOLKSWAGEN AG and on its internet site of VOLKSWAGEN AG (website: www.volkswagen-ir.de).

Mladá Boleslav, 5 February 2008

Reinhard Jung
Chairman
of the Board of Directors

Holger Kintscher
Member of the
Board of Directors
Commercial Affairs
Department

Jana Šrámová
Director of Accounting

Marek Růžička
Head of Closing Accounts
and External Reporting

REPORT ON RELATIONS

Report on relations between VOLKSWAGEN AG and ŠKODA AUTO a.s. and between ŠKODA AUTO a.s. and other entities controlled by VOLKSWAGEN AG in the accounting period 1 January 2007 – 31 December 2007

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the "Controlling Entity" or "Volkswagen") and ŠKODA AUTO a.s., having its registered offices in Mladá Boleslav, Tř. Václava Klementa 869, Post code: 29360, ID No.: 00177041 (hereinafter referred to as the "Controlled Entity" or "the Company" or "Škoda Auto"), and between Škoda Auto and other entities controlled by Volkswagen in the accounting period 1 January 2007 to 31 December 2007 (hereinafter referred to as the "accounting period") was prepared pursuant to provision § 66a paragraph 9 of the Act No. 513/1991 Coll., Commercial Code, as amended.

Volkswagen was the sole shareholder of Škoda Auto with 100% voting rights untill 18 July 2007. From that date and as the result of the Volkswagen Group restructuring plan, Volkswagen International Finance N.V., having its registered offices in Amsterdam, The Kingdom of the Netherlands, became the new sole shareholder of Škoda Auto. Volkswagen International Finance N.V. is indirectly a 100% subsidiary of Volkswagen AG.

Contracts concluded

Škoda Auto and Volkswagen, and Škoda Auto and the companies controlled by Volkswagen concluded contracts in the following areas during the accounting period:

1. Sales of own products, goods and services

a) vehicles
Škoda Auto did not conclude any vehicle sales contracts in the accounting period.

b) genuine parts
Škoda Auto did not conclude any genuine part sales contracts in the accounting period.

c) other
Škoda Auto entered into service, licence and other products sales contracts with the following companies:
AUDI AG
VOLKSWAGEN AG
Shanghai Volkswagen Automotive Co. Ltd.
SEAT, S.A.
Volkswagen do Brasil Ltda.
Volkswagen de Mexico, S.A.
SKODA AUTO India Private Ltd.
VOLKSWAGEN SARAJEVO, d.o.o.
OOO Volkswagen Rus

2. Purchase of goods and services

a) production material
Škoda Auto concluded production material purchase contracts with the following companies:
AUDI AG
VOLKSWAGEN AG
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Sachsen GmbH
Volkswagen Poznan Sp. z o.o.
Volkswagen Navarra, S.A.

b) indirect material and services
Škoda Auto entered into the following indirect material and service purchase contracts (indirect material and services purchase, research and development cooperation, IT services, licences, software and hardware supplies, customer services consultancy, logistics system support, logistics system consultancy, standardisation cooperation, rent of properties, rent of testing areas) with the following companies:
VOLKSWAGEN AG
Volkswagen Sachsen GmbH
AUDI AG
Volkswagen Immobilien Service GmbH
Volkswagen of South Africa (Pty.) Ltd
VOLKSWAGEN OF AMERICA INC
Volkswagen Coaching GmbH
Auto 5000 GmbH
Gearbox del Prat, S.A.
Auto Vision GmbH
Import VOLKSWAGEN Group s.r.o.
Skoda Auto Polska S.A.
Volkswagen de Mexico, S.A.
Groupe VOLKSWAGEN France s.a.
Shanghai Volkswagen Automotive Co. Ltd.
Sitech Sp. z o.o.
SKODA AUTO India Private Ltd.
ŠKODA AUTO Slovensko s.r.o.
ŠkoFIN s.r.o.
OOO VOLKSWAGEN RUS
Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN SLOVAKIA, a.s.
VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Group Italia S.p.A.
Volkswagen Group Rus OOO
AUDI HUNGARIA MOTOR Kft.
VOLKSWAGEN Group Japan K.K.
Volkswagen-Audi España S.A.
Volkswagen Group Ireland LTD.
Volkswagen Group Sverige AB
Volkswagen Bruxelles SA
Automobilmanufaktur Dresden GmbH
SEAT, S.A.
CENTRO TÉCNICO DE SEAT, S.A.
Volkswagen Argentina S.A.
Volkswagen Navarra, S.A.
IAV Ingenieursgesellschaft GmbH
Volkswagen Logistics GmbH
ŠKO-ENERGO, s.r.o.

c) genuine parts
As part of genuine parts purchasing, Škoda Auto entered into contracts with the following companies:
AUDI AG
Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN AG
VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen de Mexico, S.A.
Volkswagen do Brasil Ltda.
Auto 5000 GmbH
Volkswagen Argentina S.A.
Sitech Sp. z o.o.

d) investments
Škoda Auto entered into investment purchase contracts with the following companies:
VOLKSWAGEN AG
Volkswagen Immobilien Service GmbH
e4t electronics for transportation s.r.o.
AUDI AG

3. Other contractual relationships

Škoda Auto also established contractual relationships (marketing services, training, sales support, financial services, system support, short-term loans) with the following companies:
VOLKSWAGEN AG
ŠKODA AUTO Slovensko s.r.o.
VOLKSWAGEN Group Italia S.p.A.
Volkswagen Group Ireland LTD.
Volkswagen Group Sverige AB
Volkswagen-Audi España S.A.
Import VOLKSWAGEN Group s.r.o.
ŠkoFIN s.r.o.
ŠkodaAuto Deutschland GmbH
Skoda Auto Polska S.A.
e4t electronics for transportation s.r.o.
SAIC-Volkswagen Sales Company Ltd.
VOLKSWAGEN Group United Kingdom Ltd.
VOLKSWAGEN Group Australia Ptg. Ltd.
ŠKO-ENERGO, s.r.o.
Volkswagen International Finance N.V.
Groupe VOLKSWAGEN France s.a.

Other legal acts

In the accounting period no legal acts were reported which were carried out in favour of Volkswagen and entities controlled by Volkswagen, which went beyond the scope of standard legal acts carried out by Volkswagen while exercising its rights as the Controlling Entity of Škoda Auto.

Škoda Auto paid a dividend of CZK 8,430 million to Volkswagen International Finance N.V., as the sole shareholder, on 4 October 2007 based on the Decision of the sole shareholder Volkswagen International Finance N.V. from 24 September 2007.

In 2007 Škoda Auto increased the share capital of its subsidiary Skoda Auto India Private Ltd. by CZK 780 million.

In 2007 Škoda Auto invested an additional CZK 298 million to the share capital of its associate OOO VOLKSWAGEN RUS. Additionally, European Bank for Reconstruction and Development (EBRD), a new investor in OOO VOLKSWAGEN RUS, contributed to the statutory equity funds, which resulted in a decrease of statutory shareholding of the Company to 30%. The Company's share of profits or losses of the associate remained unchanged at 37.5%.

As at 19 May 2007, the liquidation of ŠKODA AUTO BH d.o.o. was completed.

Based on the decision of Škoda Auto as a sole shareholder, the company Autovize s.r.o. entered into liquidation effective 1 January 2007. This fact was published in accordance with valid regulations. The liquidation was completed as at 20 December 2007 by transfer of the liquidation settlement of CZK 172 million to Škoda Auto.

The subsidiaries in which Škoda Auto has a financial investment paid dividend to the Company of CZK 85 million in 2007.

Other measures, their advantages and disadvantages

During the accounting period, Škoda Auto did not adopt or take any measures on the behalf of or at the incentive of Volkswagen, and other entities controlled by Volkswagen, other than steps normally taken vis-a-vis Volkswagen as the Controlling Entity of Škoda Auto.

Performance provided and counter-performance accepted

In the accounting period no other performance and counter-performance in favour or at the initiative of Volkswagen, and entities controlled by Volkswagen, which exceeded the scope of standard performance and counter-performance taken by Škoda Auto regarding Volkswagen, as the Controlling Entity of Škoda Auto, were taken or implemented by Škoda Auto.

Transactions with related parties during the accounting period are disclosed in notes 7, 8, 9, 12, 14 and 27 of the notes to separate financial statements.

The Board of Directors of the Controlled Entity declares that Škoda Auto did not suffer from any damage or detriment as a result of the conclusion of the above mentioned contracts, the other aforesaid legal acts, other measures, performance provided or accepted counter-performance.

Information on monetary and in-kind income of Škoda Auto Board of Directors, senior executives and Supervisory Board

Act No. 256/2004 Coll. on Doing Business in the Capital Market, as amended, requires the disclosure, among other information, of all monetary and in-kind income of executives and members of supervisory boards received for the accounting period in question, in the form of aggregate figures for all members of the Board of Directors, aggregate figures for all senior executives, and aggregate figures for all members of the Supervisory Board. This Act also requires disclosure of the principles for remuneration of executives and supervisory board members. As defined in Section 2(c) of the Act, the executives of Škoda Auto consist of the members of the Board of Directors as the Company's statutory body. In order to increase transparency, Škoda Auto discloses the above information not only for executives and supervisory board members, but also for senior executives (for more information on senior executives, see page 20).

Remuneration Principles
Pursuant to the provisions of the above mentioned Act, the values disclosed include, in addition to income from Škoda Auto as the issuer, also income from other Škoda Auto Group companies, if any, for work done to benefit Škoda Auto.

The principles for remunerating members of the Board of Directors, senior executives and members of the Supervisory Board are in accordance with generally binding laws and regulations and fulfill all material aspects of the recommendations of the Code of Corporate Governance based on OECD principles.

Board of Directors
The system for remunerating members of the Board of Directors is defined by internal directives in accordance with Volkswagen Group procedures. In terms of form, the remuneration is based on four main pillars: fixed remuneration, variable remuneration, benefits, and other in-kind income provided by the Company. The specific conditions for remunerating individual members of the Board of Directors are set forth in the relevant contractual documents.

The basic portion of the remuneration consists of fixed cash income that enables members of the Board of Directors to carry out their duties in the Company's interests and with due care, without being dependent on meeting the Company's short-term targets. In addition to the fixed income component in the form of the base remuneration, their remuneration also includes variable income in the form of one-off bonuses. These variable components are dependent on the financial results of the Company and Volkswagen Group, as well as the fulfillment of individual goals set for the Board member, thereby ensuring the Board of Directors' interests are aligned with those of the sole shareholder.

In addition to the income described above, the Company provides the Board of Directors with a portfolio of benefits in a pre-defined amount, as well as other in-kind income. The latter include use of company cars, accommodation, educational programmes, and insurance.

Senior Executives
Similarly to the Board of Directors, the system for remunerating senior executives is defined by internal directives in accordance with Volkswagen Group procedures. Like the system for remunerating members of the Board of Directors, in terms of form the remuneration is based on the four basic pillars mentioned above. The specific conditions for remunerating individual senior executives are set forth in the management contracts.

Supervisory Board
Members of the Supervisory Board are paid remuneration in the form of a fixed amount stipulated by the Company's sole shareholder. Members of the Supervisory Board also have the option of using company cars.

The Company does not provide any loans to members of the Board of Directors, senior executives and/or members of the Supervisory Board as a result of their positions. Variable remuneration of members of the Board of Directors and senior executives, relating to the fulfillment of targets set for 2007, had not been approved as of the Annual Report closing date and will be paid in 2008. For this reason, the values set forth below include actually paid amounts of remuneration relating to the result for the year 2006.

All cash and in-kind income of members of the Board of Directors, senior executives and/or members of the Supervisory Board were received exclusively from the company Škoda Auto and were the following (CZK):

		2007			2006	
	Monetary income	**In-kind income**	**Total income**	**Monetary income**	**In-kind income**	**Total income**
Board of Directors	14,775,256	7,122,386	21,897,642	10,350,004	6,166,134	16,516,138
Supervisory Board	739,200	291,400	1,030,600	879,000	399,278	1,278,278
Senior Executives	89,896,781	14,612,500	104,509,281	75,815,251	16,587,984	92,403,235
Total	**105,411,237**	**22,026,286**	**127,437,523**	**87,044,255**	**23,153,396**	**110,197,651**

GLOSSARY OF TERMS AND ABBREVIATIONS

CAS	Czech accounting standards for businesses and other accounting regulations valid in the Czech Republic, particular Act No. 563/1991 Coll. on Accounting and Decree No. 500/2002 Coll., implementing selected provisions of the Accounting Act
CKD	Completely Knocked Down – the name used for the most complex vehicle kits consisting of sheet steel pressings and weldments of certain body sub-assemblies, all parts for vehicle assembly including engine, gearbox, chassis and lubricants
Company	in the Annual Report, the term “the Company” is used as a synonym for the company ŠKODA AUTO a.s.
Consolidated group	in addition to ŠKODA AUTO a.s. with registered office in Mladá Boleslava, also includes all significant subsidiaries and associates
Deliveries to customers	number of Škoda-brand vehicles delivered to end customers that were produced in Škoda Auto Group and/or partner plants
e-learning	a training method based on electronic training programs running on personal computers
ESP	Electronic Stabilisation Programme – a system utilising the brake system’s anti-locking and anti-skid properties to improve a vehicle’s behaviour considerably in all critical driving manoeuvres by helping to stabilise the car
FIA	International Automobile Federation
Gross liquidity	liquid funds, i.e. cash and cash equivalents including short-term lendings
Group	in the Annual Report, the terms “the Group” and “the Škoda Auto Group” are used as synonyms for the Škoda Auto Consolidated Group
IAS / IFRS	International Accounting Standards / International Financial Reporting Standards
Investment ratio	ratio of capital expenditures (less capitalised development expenses) to total sales revenues
KVP	from the German “Kontinuierlicher Verbesserungsprozess” – Continual Improvement Process aimed at reducing waste and increasing labour productivity
Net liquidity	gross liquidity less financial obligations, including factoring obligations
Production	number of vehicles produced. The total production figure also includes production of vehicles for other Volkswagen Group brands (Volkswagen- and Audi-brand vehicles produced by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment
Profit-to-sales ratio	profit expressed as a percentage of sales
Registrations	number of new Škoda-brand vehicles officially registered in a given country
Sales	number of vehicles sold to importers and dealers. The unit sales figure also includes sales of vehicles manufactured by other Volkswagen Group brands (SEAT vehicles sold by ŠAS; VW and AUDI vehicles sold by SAIPL). For accuracy, vehicle assembly kits are reported in the vehicles segment
SKD	Semi Knocked Down – refers to the basic vehicle kits, consisting of complete vehicle body, powertrain, chassis components, exhaust manifold, smaller parts for assembly, and lubricants
SUV	Sport utility vehicle
TDI / TSI	Turbocharged diesel engine with direct fuel injection / Turbocharged petrol engine with direct fuel injection
Temporary workers	employees of a labour agency who are temporarily seconded to work for a different employer
WRC	World rally car, a category of motor races
Z.E.B.R.A.	an internal corporate system of proposals for work improvements

LIST OF NON-CONSOLIDATED CAPITAL HOLDINGS OF ŠKODA AUTO A.S.

ŠKODA AUTO a.s.

ZAO Evroavto
Sergiev Posad, Russian Federation
Škoda Auto stake: 75.10%
Company has no operations.

e4t electronics for transportation s.r.o.
Prague, Czech Republic
Škoda Auto stake: 49%
Principal businesses: research and development in the field of natural, technical, and social sciences, training and consulting services.

ŠKO-ENERGO FIN, s.r.o.
Mladá Boleslav, Czech Republic
Škoda Auto stake: 10%
Principal businesses: letting of property and non-residential premises, industrial and office equipment.

ŠKO-ENERGO, s.r.o.
Mladá Boleslav, Czech Republic
Škoda Auto stake: 34%
Principal businesses: generation and distribution of heat energy, generation of power, trading in electricity, gas distribution, production of drinking and service water, operation of water mains and sewage systems.

Note:
ŠKODA AUTO BH d.o.o. completed liquidation effective 19 May 2007.
AutoVize s.r.o. completed liquidation effective 20 December 2007.

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND POST-BALANCE SHEET EVENTS

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

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

Mladá Boleslav, on 8 February 2008

Reinhard Jung
Chairman of the Board of Directors

Holger Kintscher
Member of the Board of Directors
Commercial Affairs Department

Jana Šrámová
Director of Accounting

Marek Růžička
Head of Closing Accounts
and External Reporting

This version of the Annual Report 2007 is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all maters of interpretation of information, views or opinions, the original language version of these Annual Report 2007 takes precedence over this translation.

KEY FIGURES AND FINANCIAL RESULTS AT A GLANCE*

Škoda Auto Key Figures and Financial Results According to CAS

Production, Sales and Technical Data

		1999	2000	2001	2002	2003	2004
Deliveries to customers	**vehicles**	**385,330**	**435,403**	**460,252**	**445,525**	**449,758**	**451,675**
Sales	**vehicles**	**376,329**	**448,394**	**460,670**	**440,572**	**438,843**	**441,820**
Production	**vehicles**	**371,169**	**450,910**	**460,886**	**442,469**	**437,554**	**444,121**
Employees	persons	22,030	25,833	24,129	23,470	22,798	24,561
of which: External persons	persons	1,708	3,245	2,735	2,179	2,308	3,664

Profit and Loss Account

		1999	2000	2001	2002	2003	2004
Revenues	**CZK millions**	**110,409**	**136,283**	**153,271**	**145,694**	**145,197**	**153,550**
of which: Domestic	%	19	18	18	18	17	15
Export	%	81	82	82	82	83	85
Raw materials and consumables	CZK millions	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	72.8	77.8	75.9	75.4	74.6	75.1
Value added	**CZK millions**	**18,513**	**18,977**	**22,296**	**22,056**	**23,343**	**24,884**
	% of revenues	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	6,629	7,465	7,583	7,834	8,060	8,500
Depreciation	CZK millions	6,516	7,768	9,646	10,826	10,296	10,606
Operating profit	**CZK millions**	**5,237**	**5,204**	**4,643**	**3,677**	**5,209**	**5,856**
	% of revenues	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before income tax	**CZK millions**	**3,814**	**4,175**	**2,674**	**2,489**	**2,517**	**4,815**
Profit before income tax-to-revenues ratio	% of revenues	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1,177	839	545	664	1,039	1,318
Profit for the year	**CZK millions**	**2,637**	**3,336**	**2,129**	**1,825**	**1,478**	**3,497**
Profit for the year-to-revenues ratio	% of revenues	2.4	2.4	1.4	1.3	1.0	2.3

Balance Sheet/Financing

		1999	2000	2001	2002	2003	2004
Fixed assets	**CZK millions**	**33,687**	**39,175**	**45,008**	**44,873**	**44,074**	**41,143**
Current assets and other assets	**CZK millions**	**21,923**	**27,486**	**21,603**	**21,945**	**22,077**	**30,694**
of which: lendings	CZK millions	0	0	0	0	0	8,600
Equity	**CZK millions**	**22,700**	**26,032**	**28,157**	**29,817**	**31,758**	**32,844**
Liabilities and other liabilities	**CZK millions**	**32,910**	**40,629**	**38,454**	**37,001**	**34,393**	**38,993**
of which: Bonds	CZK millions	0	10,000	10,000	10,000	10,000	10,000
Provisions under special regulations	CZK millions	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	3,000	4,850	2,000	5,000	0	0
Assets	**CZK millions**	**55,610**	**66,661**	**66,611**	**66,818**	**66,151**	**71,837**
Net liquidity	**CZK millions**	**(1,339)**	**(4,007)**	**(798)**	**(4,660)**	**2,495**	**4,534**
Investments	**CZK millions**	**11,313**	**13,873**	**16,235**	**11,586**	**10,248**	**8,430**
Investment ratio	%	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	67.4	66.5	62.6	66.4	72.1	79.8

Key Figures and Financial Results According to IFRS

Production, Sales and Technical Data

		Škoda Auto Group				Škoda Auto (company)			
		2004	2005	2006	2007	2004	2005	2006	2007
Deliveries to customers	**vehicles**	**451,675**	**492,111**	**549,667**	**630,032**	**451,675**	**492,111**	**549,667**	**630,032**
Sales	**vehicles**	**444,458**	**498,467**	**562,251**	**619,635**	**441,820**	**493,119**	**555,202**	**623,085**
Sales of Škoda cars		442,188	496,387	559,821	617,269	441,820	493,119	555,202	623,085
Production	**vehicles**	**443,868**	**494,127**	**556,347**	**623,291**	**444,121**	**494,637**	**556,433**	**623,529**
Production of Škoda cars		443,868	494,127	556,347	622,811	444,121	494,637	556,433	623,529
Employees	persons	25,225	26,742	27,680	29,141	24,561	26,014	26,738	27,753
of which: External persons	persons	3,664	3,460	3,879	4,680	3,664	3,460	3,704	4,194

Profit and Loss Account

		Škoda Auto Group				Škoda Auto (company)			
		2004	2005	2006	2007	2004	2005	2006	2007
Sales	**CZK millions**	**163,665**	**187,382**	**203,659**	**221,967**	**155,396**	**177,822**	**189,816**	**211,026**
of which: Domestic	%	14.7	13.3	12.6	11.8	15.5	14.0	13.5	12.4
Export	%	85.3	86.7	87.4	88.2	84.5	86.0	86.5	87.6
Cost of products. goods and services sold	**CZK millions**	**144,368**	**163,738**	**175,636**	**185,474**	**140,996**	**159,187**	**167,709**	**180,865**
	% of revenues	88.2	87.4	86.2	83.6	90.7	89.5	88.4	85.7
Gross profit	**CZK millions**	**19,297**	**23,644**	**28,023**	**36,493**	**14,400**	**18,635**	**22,107**	**30,161**
	% of revenues	11.8	12.6	13.8	16.4	9.3	10.5	11.6	14.3
Sales expenses	CZK millions	10,278	10,611	11,903	13,201	6,137	6,558	6,905	7,964
Administrative expenses	CZK millions	3,513	3,676	3,587	4,207	3,157	3,329	3,161	3,701
Balance of other operating revenues/costs	CZK millions	389	1,503	2,069	699	183	1,256	1,735	525
Operating profit	**CZK millions**	**5,895**	**10,860**	**14,602**	**19,784**	**5,289**	**10,004**	**13,776**	**19,021**
	% of revenues	3.6	5.8	7.2	8.9	3.4	5.6	7.3	9.0
Financial result	CZK millions	(1,052)	(787)	(404)	171	(865)	(564)	(216)	425
Profit before income tax	**CZK millions**	**4,843**	**10,073**	**14,198**	**19,860**	**4,424**	**9,440**	**13,560**	**19,446**
Profit before income tax-to-sales ratio	% of revenues	3.0	5.4	7.0	8.9	2.8	5.3	7.1	9.2
Tax on profit or loss	CZK millions	1,474	2,180	3,136	3,878	1,291	2,077	2,678	3,554
Profit for the year**	**CZK millions**	**3,369**	**7,893**	**11,062**	**15,982**	**3,133**	**7,363**	**10,882**	**15,892**
Profit for the year-to-sales ratio	% of revenues	2.1	4.2	5.4	7.2	2.0	4.1	5.7	7.5

Balance Sheet/Financing

		Škoda Auto Group				Škoda Auto (company)			
		2004	2005	2006	2007	2004	2005	2006	2007
Non-current assets	**CZK millions**	**55,858**	**55,424**	**54,292**	**56,767**	**55,792**	**55,023**	**53,936**	**56,903**
Current assets	**CZK millions**	**40,343**	**34,331**	**50,920**	**59,014**	**32,414**	**28,956**	**43,499**	**48,658**
Of which: Lendings	CZK millions	8,600	11,200	23,950	25,554	8,600	11,200	23,950	25,554
Equity**	**CZK millions**	**43,923**	**46,757**	**58,321**	**67,034**	**44,147**	**46,483**	**58,007**	**66,532**
Non-current and current liabilities	**CZK millions**	**52,278**	**42,998**	**46,891**	**48,747**	**44,059**	**37,496**	**39,428**	**39,029**
Of which: Nominal value of bonds	CZK millions	10,000	5,000	5,000	2,000	10,000	5,000	5,000	2,000
Assets	**CZK millions**	**96,201**	**89,755**	**105,212**	**115,781**	**88,206**	**83,979**	**97,435**	**105,561**
Net liquidity	**CZK millions**	**(2,631)**	**4,911**	**21,157**	**27,403**	**414**	**6,070**	**19,352**	**25,154**
Cash flow from operating activities	**CZK millions**	**26,794**	**23,550**	**27,420**	**28,454**	**23,164**	**21,421**	**24,203**	**28,146**
Cash flow from investing activities	**CZK millions**	**(9,752)**	**(11,566)**	**(11,090)**	**(13,785)**	**(9,957)**	**(11,299)**	**(10,910)**	**(13,913)**
Investment ratio	%	4.6	4.7	4.1	4.9	4.8	4.8	4.3	4.9
Equity ratio	%	45.7	52.1	55.4	57.9	50.0	55.4	59.5	63.0
Equity-to-fixed assets ratio	%	78.6	84.4	107.4	118.1	79.1	84.5	107.5	116.9

* The financial results reported according to CAS are not comparable with the financial results reported according to IFRS.
** Consolidated figures are given net of minority shares.

ŠKODA AUTO ORGANISATION CHART

- **G** Chairman of the Board's Department
  - **GP*** Corporate Communication
  - **GA*** Internal audit
  - **GS*** Brand Product Planning
  - **GZ*** Project Management Production Abroad
  - **GK*** Production Cost Optimization
  - **GH** Board Main Secretariate
  - **GQ*** Quality Assurance
    - **GQD*** Purchased Part Quality

- **T** Technical Development
  - **TP*** Chassis and Power Train Development
  - **TZ*** Total Car Development
  - **TK*** Car Body Development
  - **TA*** Product Management
  - **TM*** Electric/Electronic Development and Servicing
  - **TF** Frontloading
  - **TR*** Project Technical Management
  - **TD*** Styling
  - **TE** Planning and Coordination
  - **TC** Special Electric Strategic and Development Projects
  - **TS** Škoda Motorsport

- **E** Commercial Affairs
  - **EN*** Škoda Auto Purchase
  - **EP*** Legal Department
  - **EO*** Information Systems and Organisation
  - **ET*** Treasury
  - **EU*** Accounting
  - **EC*** Controlling
    - **ECP*** Controlling of Sales, Subsidiaries and Divisions

- **P** Sales and Marketing
  - **PO*** Sales Management
  - **PM*** Marketing
  - **P1*** Sales Central Europe
  - **P2*** Sales International
  - **P3*** Sales Europe, Asia, CKD markets
  - **PS*** Customer Services
  - **PD*** Sales Original Parts/Accessories

- **V** Production and Logistics
  - **VV*** Product Manufacture Management
  - **VC*** Production Basis Central Planning
  - **VF*** Construction and Operating Technology
  - **VN*** Tool Shop
  - **VL*** Brand Logistics
  - **VM** Foreign Projects
  - **VT** ŠkoTrans
  - **VA*** Power Unit Production
  - **VI** Industrial Engineering
  - **VP** Project B6/ASUV
  - **VZ*** Car Production
    - **VZV*** Plant in Vrchlabí
    - **VZK*** Plant in Kvasiny

- **Z** Human Resources Management
  - **ZP*** Human Resources Planning
  - **ZC*** Development of Human Resources
  - **ZB*** Human Resources Business Support
  - **ZS*** Human Resources Service Centre
  - **ZR** External Affairs
  - **ZO** Brand Security and Protection

* Key positions

EVENTS ANTICIPATED IN 2008

January
– Launch of new-generation Fabia Combi in world markets
– Delhi Auto Expo in India – launch of new-generation Škoda Fabia in the Indian market

February
– Two millionth Škoda Octavia produced

March
– Geneva Motor Show – world premiere of successor of Škoda Superb
– The successor of Škoda Superb enters production
– Annual press conference and release of 2007 Annual Report
– Opening of third protected workplace at Mladá Boleslav plant, with capacity of 50 employees

April
– Škoda Auto participates in Beijing Auto Show in China
– Two millionth Škoda Fabia produced
– Release of Sustainable Development Report for the period 2007/2008
– Release of Interim Report as at 31 March 2008 for the Škoda Auto Consolidated Group according to IFRS
– Škoda Day 2008 Mladá Boleslav – job opportunities fair for students

May
– New-generation Škoda Superb presented to world media
– Škoda Auto is general sponsor of the IIHF World Ice Hockey Championship in Canada

June
– New-generation Škoda Superb presented to the worldwide sales network
– New-generation Škoda Superb launched in world markets
– Škoda Auto participates in Autotec Brno motor show
– Technical education conference held as part of project IQ Auto: Innovation at Škoda Auto

July
– Škoda Auto is general sponsor of the Tour de France
– Release of Semi-annual Report of the Škoda Auto Consolidated Group according to IFRS

August
– Škoda Auto is partner of the Olympic Games in Beijing and the Czech Olympic Team
– Škoda Auto is partner of the Czech Paralympic Team at the Paralympic Games in Beijing
– Škoda Auto participates in Moscow Motor Show

September
– 100th anniversary of Vrchlabí plant celebrated
– Škoda Auto is general partner of 6th annual Festival of European Film Smiles in Mladá Boleslav

October
– Škoda Auto participates in Paris Motor Show in France
– Vrchlabí plant produced one millionth Škoda brand vehicle and Mladá Boleslav produces its five millionth vehicle since merger with Volkswagen Group in 1991
– Release of Interim Report as at 30 September 2008 for the Škoda Auto Consolidated Group according to IFRS

November
– Modernised Škoda Octavia enters production

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www.skoda-auto.cz
www.skoda-auto.com

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