

SIMPLY CLEVER



MORE ROOM...

ŠkodaAuto
ANNUAL REPORT 2006



...FOR REVIEW



Even in the dynamic life of an automotive manufacturer there are moments of genuflection, moments in which to stop and size up the situation. And also to look back, because the present is always a product of the past. Our look in the rear-view mirror is a pleasant one: we see ten million customers that have purchased a Škoda-brand vehicle from the commencement of production until the present day.



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SELECTED DATA AND FINANCIAL FIGURES ACCORDING TO IFRS

		Škoda Auto Group			ŠKODA AUTO a.s.		
		2004	2005	2006	2004	2005	2006
Volume Data							
Deliveries to customers	vehicles	451,675	492,111	549,667	451,675	492,111	549,667
Sales*	vehicles	444,458	498,467	559,821	441,820	493,119	555,202
Production*	vehicles	443,868	494,127	556,347	444,121	494,637	556,433
Number of employees	persons	25,225	26,742	27,680	24,561	26,014	26,738
of which: temporary	persons	3,664	3,460	3,879	3,664	3,460	3,704
Profit and Loss Account							
Sales	CZK millions	163,665	187,382	203,659	155,396	177,822	189,816
Gross profit	CZK millions	19,297	23,644	28,023	14,400	18,635	22,107
	% of sales	11.8	12.6	13.8	9.3	10.5	11.6
Operating profit	CZK millions	5,895	10,860	14,602	5,289	10,004	13,776
	% of sales	3.6	5.8	7.2	3.4	5.6	7.3
Profit before income tax	CZK millions	4,843	10,073	14,198	4,424	9,440	13,560
Profit before income tax-to-sales ratio	% of sales	3.0	5.4	7.0	2.8	5.3	7.1
Profit after income tax**	CZK millions	3,369	7,893	11,062	3,133	7,363	10,882
Profit after income tax-to-sales ratio	% of sales	2.1	4.2	5.4	2.0	4.1	5.7
Balance Sheet/Financing							
Fixed assets	CZK millions	55,858	55,424	54,070	55,792	55,023	53,714
Current assets	CZK millions	40,343	34,331	51,142	32,414	28,956	43,721
of which: lendings	CZK millions	8,600	11,200	23,950	8,600	11,200	23,950
Equity**	CZK millions	43,923	46,757	58,321	44,147	46,483	58,007
Non-current liabilities	CZK millions	12,051	12,837	12,297	11,336	11,685	9,400
of which: nominal value of bonds	CZK millions	5,000	5,000	3,000	5,000	5,000	3,000
Current liabilities	CZK millions	40,227	30,161	34,594	32,723	25,811	30,028
of which: nominal value of bonds	CZK millions	5,000	0	2,000	5,000	0	2,000
Total assets	CZK millions	96,201	89,755	105,212	88,206	83,979	97,435
Cash flow from operating activities	CZK millions	26,794	23,550	27,420	23,164	21,421	24,220
Cash flow from investing activities	CZK millions	(9,752)	(11,566)	(11,090)	(9,957)	(11,299)	(10,927)
Cash flow from financing activities	CZK millions	(5,153)	(14,670)	(156)	(2,568)	(11,298)	68
R&D expenditure	CZK millions	4,852	5,414	4,702	4,852	5,414	4,702
Investment ratio	%	4.6	4.7	4.1	4.8	4.8	4.3
Net liquidity	CZK millions	(2,631)	4,911	21,157	414	6,070	19,352
Equity ratio	%	45.7	52.1	55.4	50.0	55.4	59.5
Equity-to-fixed assets ratio	%	78.6	84.4	107.9	79.1	84.5	108.0

* To ensure correct reporting of production and sales volumes, vehicle assembly kits are reported within the vehicles segment.

** The figure for the consolidated group includes minority shares.

LETTER FROM THE CHAIRMAN

Dear friends,

2006 was one of the most significant years in the history of Škoda Auto. We achieved record performance results and succeeded in all aspects of the Company's business. At the same time, we took decisions that will ensure its further long-term, sustainable, and dynamic growth.

In the area of production and deliveries to customers, we surpassed for the first time the magic number of half a million vehicles produced during a single calendar year. Thus, from the start of production until today, Škoda brand vehicles have been purchased by over ten million satisfied customers. And that is a number that we, the Company's employees and well-wishers, can be proud of.

The entire Škoda brand product range contributed to this accomplishment. Its foundation was laid by the Škoda Octavia model line, which continues to grow in popularity and now makes up fully half of all vehicles sold. Also, during 2006 we launched a new model line – our fourth so far – the Škoda Roomster. We are pleased to report that this vehicle got a very enthusiastic reception from both our customers and professional circles. The vehicle's success is confirmed by orders and sales figures that exceeded our expectations.

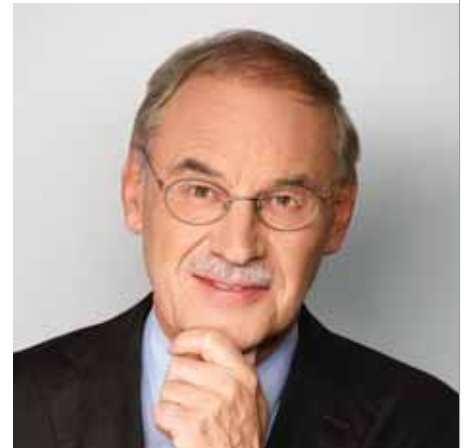
The positive financial performance brought us closer to our declared objectives. The high earnings are an important factor strengthening the Company's position amid the fierce competition raging in the world's automotive markets. And, more and more often, that competition is appearing "on our doorstep" in the form of new production capacities in Central Europe.

In the next few years, we will focus on further developing and rejuvenating our product range. The year 2007 will be dedicated to the new Škoda Fabia model, which will be premiered at the Geneva Motor Show. The brand's future direction is indicated by the Joyster study, which attracted visitors' attention at the Auto Salon Paris, among others, when it was first unveiled in public in September 2006. In our regional sales strategies, we made further steps to beef up our presence in new markets. I am especially pleased that we succeeded in completing preparations for the launch of our operations in the red-hot Chinese market. In the run-up to its Chinese market launch in 2007, we presented the new Škoda Octavia model at the Beijing Motor Show in November 2006. Also, in June 2006, schedules to a licence agreement were signed to allow production of the Škoda Fabia and Škoda Superb model lines in China.

Another major step was made in May 2006 with the signing of an agreement on a joint manufacturing plant for the Volkswagen and Škoda Auto brands in Kaluga, Russia. The first vehicle bound for the Russian market to leave the gates of the joint plant will be a Škoda Octavia and this event is to take place as early as autumn, 2007. In addition, we expanded production capacity in our partner assembly plants in Kazakhstan and Ukraine. Thus, as of year-end 2006, the Škoda brand had a presence in over ninety countries all over the world.

In order to ensure that we are capable of maintaining this pace of development into the future, we set clear directions and specific objectives for all areas of the Company's operations. 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 workers, we intend to continue increasing the quality of our products and services, and thereby further build the image and reputation of the Škoda brand.

On behalf of the entire Board of Directors, I would like to extend my sincere thanks to all of you who contributed to the success of our brand.



A handwritten signature in black ink, appearing to read 'D. Wittig'.

Dipl. Kfm. Detlef Wittig
Chairman of the Board of Directors

MILESTONES IN 2006



January

- Škoda Roomster presented to trade journalists and jury of the prestigious automotive competition "CAR OF THE YEAR"

February

- World premiere of Škoda Roomster at the Geneva Motorshow
- Škoda Auto releases its 2005 financial performance figures

March

- Series production of Škoda Roomster begins at Kvasiny plant

April

- Škoda Auto is a general sponsor of the World Ice Hockey Championships in Latvia

May

- Opening of a new centre for preparing and shipping vehicle assemblies
- Volkswagen Group and Škoda Auto sign an agreement on the construction of an assembly plant in Kaluga, Russia

June

- Company holds an international presentation of the Škoda Roomster for the press in Prague
- Škoda Roomster goes on sale

July

- Celebrations to mark the historic 10,000,000th vehicle produced by Škoda Auto (since 1905). The jubilee vehicle was a Škoda Octavia from the Mladá Boleslav plant
- Škoda Auto is general partner of the Tour de France

August

- 100,000th Škoda Superb produced

September

- World premiere of the Škoda Octavia Scout 4x4 and the Joyster design study at the Auto Salon Paris
- Škoda brand officially launched in the Chinese market

October

- Healthy Company project launched
- Škoda Roomster Scout goes into series production at the Kvasiny plant

November

- 500,000th Škoda-brand vehicle produced in a year
- Cornerstone of a new Škoda Auto Technology Centre laid in Mladá Boleslav
- First presentation of Škoda brand at the international motor show in Beijing

December

- Series production of the Škoda Fabia Hatchback successor begins in Mladá Boleslav plant
- Company achieves best sales and earnings performance in its history

List of awards won by Škoda brand vehicles in 2006

- 1st place "Car of the Year" for Škoda Roomster in Estonia, Finland and Bulgaria
- 1st place "Auto Trophy" in Minivan category for Škoda Roomster
- 1st place "Family Car of the Year" for Škoda Roomster in Sweden and Belgium
- "Red Dot" design award for Škoda Octavia Combi

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.

The parent company, ŠKODA AUTO a.s., is an originally 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. It is 100% owned by VOLKSWAGEN AG. The Company's principal businesses are the development, manufacture, export, and sale of Škoda-brand automobiles, components, genuine parts and accessories and the provision of related repair and maintenance services.

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, import, and sale of vehicles, genuine 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, import and sale of vehicles, genuine 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, import and sale of vehicles, genuine parts and accessories.

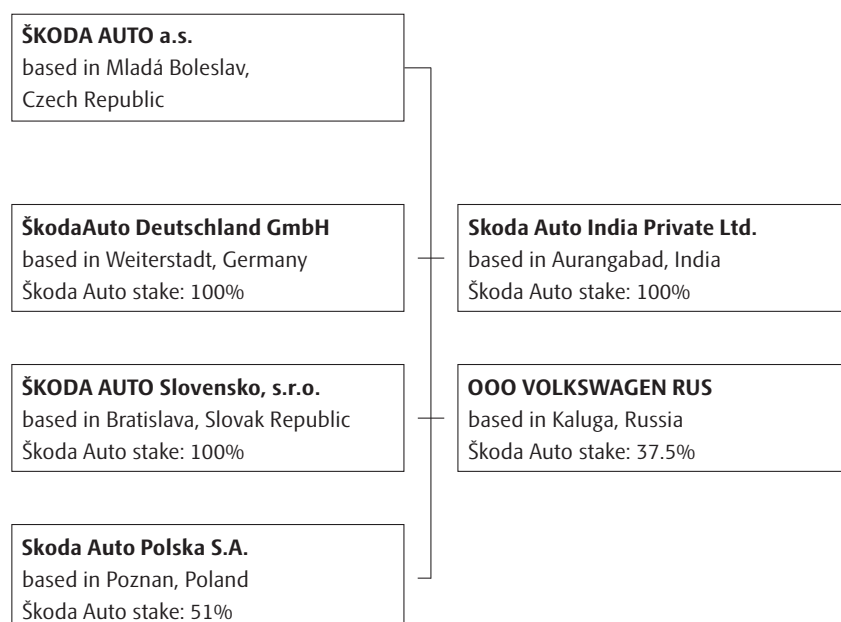
Skoda Auto India Private Ltd.

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 purchase (including import), manufacture, assembly, sale, and export of vehicles, components, genuine parts, accessories and other goods.

OOO VOLKSWAGEN RUS

OOO VOLKSWAGEN RUS was formed in May 2006 as a 100% subsidiary of VOLKSWAGEN AG for the purpose of assembling and producing VW and Škoda brand vehicles. In October, ŠKODA AUTO a.s. took a 37.5% stake in the company. Construction of a new assembly plant commenced in late 2006 and the plant is to begin operating in the second half of 2007.

Škoda Auto Group Structure





Whence We Come

“Only the best we can do is good enough for our customers.”

(Laurin & Klement, 1914)

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 begins under a new name, AZNP (“Automobilové Závody, národní podnik” – Automotive Plants, National Enterprise).

1964

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

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.

Where We Stand

Since being acquired by Volkswagen Group, Škoda Auto has tripled its production, expanded its product portfolio, and reinforced the Škoda brand's image. Furthermore, it has built an extensive sales network and successfully established itself in international markets.

Škoda Auto Group

- operates in more than 90 countries all over the world, in which it delivered 549,667 vehicles to customers in 2006; European Union countries account for 77.9% of sales,
- with sales revenues in 2006 totalling CZK 203.66 billion, is one of the largest corporate groups in the new European Union Member States by turnover,
- is a major employer; in 2006 it employed a total of 23,976 people, 942 of which were employed in foreign subsidiaries,
- in the Czech Republic, has taken top rankings in recent years in the CZECH TOP 100 in the categories "Largest Corporation", "Most Admired Corporation", and "Employer of the Year",
- generates high added shareholder value (based on its Economic Value Added – EVA figure for 2005 of CZK 4.49 billion*, Škoda Auto placed first in "The EVA® Ranking Czech Republic")
- is the Czech Republic's largest exporter, with an 7.7%** share in the country's exports,
- has major capital holdings in companies in both the Czech Republic and abroad.

* value determined by Central European Capital CZ, s.r.o. using calculation methodology provided by consulting firm Stern Stewart & Co.

** estimate

Where We're Heading

Markets

The priority for the years to come is to further bolster our position in Western European markets while maintaining our dominant position in Central Europe. At the same time, we will strengthen our position in markets with high growth potential – especially those of Eastern Europe. We will also continually engage in activities designed to further develop our presence in emerging Asian and overseas markets.

Finances

In the financial area, we will continue to ambitiously bolster the Company's economic stability and performance, focusing on the effectiveness of all processes and continual reductions in materials expenses. Priority will not be limited to the bottom line, but, first and foremost, the quality of the result will be emphasised, with an eye toward securing the Company's long-term prosperity.

Products

Development activities will focus on vehicles that are unique in terms of design, number of technical innovations, imaginative solutions to all details according to the principle "Simply Clever", all while maintaining an excellent cost-benefit ratio. To the maximum extent possible, products will be environmentally friendly in all phases of their life cycle. Going forward, the product portfolio will be developed towards achieving a higher degree of differentiation with regard to new markets. Along with the technical developments, the emotional appeal of the product portfolio will be strengthened as well.

Quality

The quality of all products continues to be our number-one priority. In the next few years, activities in this area will be focused largely on mid- and long-term customer satisfaction with Škoda-brand products. And not only Škoda-brand products, but also all services we provide will be of top quality, so as to satisfy the ever more demanding requirements and needs of our customers.

Human Resources

In the human resources field, our priority is comprehensive employee care. Activities will be focused on employees' professional growth, their further development, and on creating a motivating work environment that will support their creativity and give them incentives to perform.

The Environment

In the coming years, we will continue to implement our programme of minimising the environmental impact of our production operations. Also, high environmental demands will be placed on our suppliers, as well as on customers in the Škoda brand dealer network.

Corporate Citizenship

The top priority here continues to be maintaining a balance between the economic, environmental, and social aspects of our operations – a balance that is a fundamental pre-condition for sustainable development. Corporate factors and various group interests will be actively influenced toward achieving this balance so that future generations have the same, or better, conditions for further development as we do.

STATUTORY AND SUPERVISORY BOARDS OF ŠKODA AUTO

The Company uses the German model of corporate governance – i.e. members of the Board of Directors are also members of senior management. The Supervisory Board has an oversight role. In accordance with the Articles of Association, the General Meeting (the sole shareholder) elects and recalls members of the Board of Directors and Supervisory Board (except for members of the Supervisory Board elected and recalled by Company employees) and decides how they will be compensated for their work. The Board of Directors elects and recalls its Chairman. Similarly, the Supervisory Board also elects and recalls its Chairman.

Board of Directors

As the Company's statutory body, the Board of Directors runs the Company's operations and acts in its name. Pursuant to the Company's Articles of Association, the Board of Directors has six members, each with a term of office of three years, and multiple terms are possible. Each of the six members of the Board of Directors runs one of the Company's six departments. Matters related to Company management are decided collectively by all members of the Board of Directors.

Chairman of the Board's Department
Dipl. Kfm. Detlef Wittig
Chairman of the Board of Directors

Commercial Affairs Department
Dipl. Ing. Holger Kintscher

Production and Logistics Department
Horst Mühl

Sales and Marketing Department
Dipl.-Ökonom Fred Kappler

Human Resources Department
Ing. Martin Jahn

Technical Development Department
Dr.-Ing. Harald Ludanek



From left: Martin Jahn, Harald Ludanek, Horst Mühl, Fred Kappler, Detlef Wittig, Holger Kintscher

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, genuine parts and accessories, aggregates and components thereof, as well as logistical activities and preparations for production.

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

"Human Resources" is responsible for providing human resources services, ensuring that all Company employees are optimally qualified, satisfied, and motivated.

"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 aggregates manufactured for other Volkswagen Group brands.

Members of the Board of Directors

Dipl. Kfm. Detlef Wittig (*1942)
Chairman of the Board of Directors
since 1 October 2004

Graduated in Business Administration from the University of Göttingen. Starting in 1968, he worked for Volkswagen in Marketing and Sales Planning and in 1973–74 he was the manager responsible for the French market. In 1975–77 he was active in Tokyo as the 'Resident Representative of Volkswagen'. In 1977 he was appointed Head of Export Sales Planning and, three years later, he took over the leadership of European Sales. During 1983–87 he led Product Marketing for Audi. 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 as Head of Sales for the Volkswagen Brand. He came to Škoda Auto for the first time in 1995, as the Member of the Board responsible for Sales and Marketing, and was subsequently named Vice Chairman of the Board and given responsibility for Finances and Controlling. In 2000 he was appointed to the Board of Directors of the Volkswagen Brand in charge of Sales and Marketing and, at the same time, he was made Chairman of the Supervisory Board of Škoda Auto. From 1 October 2004 he has been the Chairman of the Board of Directors of Škoda Auto.

Dipl. Ing. Holger Kintscher (*1960)
Member of the Board of Directors
since 1 September 2005

A graduate of the Lippe Institute of Technology, specialization in production techniques. Starting in 1987 he worked for Volkswagen in training. In 1989 he joined the controlling department of the Hannover plant. In 1991–94 he was Production Controller in Wolfsburg. In 1994–95 he served as deputy head of finance in Volkswagen Poznan and in 1995 he was appointed a Member of the Board of Directors with responsibility for commercial affairs. He served in this position until 1997. In 1997–2000 he worked for Volkswagen as Head of Development and Product Controlling in the Volkswagen brand Utility Vehicles section (Volkswagen Nutzfahrzeuge – VWN). In 2000–2005 he was in charge of controlling and accounting at VWN. Since 2005 he has been with Škoda Auto as the Member of the Board of Directors responsible for commercial affairs.

Horst Mühl (*1947)
Member of the Board of Directors
since 1 January 2005

Joined Volkswagen Planning Department in 1971. In 1979–82 he worked in the company TAS Sarajevo. Afterwards, from the year 1983 he was active at the Wolfsburg plant in production and logistics. In 1992–94 he was in charge of the Škoda Auto logistics department and, subsequently (from 1995) he headed up the production & logistics department at Škoda Auto. He acted as Director of the Salzgitter plant in 1996–2000. He held the position of Technical Vice President of FAW/VW in Changchun, China, in 2001–2004. Since January 2005 he has been the Member of the Board of Directors of Škoda Auto responsible for production and logistics.

Dipl.-Ökonom Fred Kappler (*1958)
Member of the Board of Directors
since 1 January 2004

Graduate of business sciences studies at the Braunschweig Technical University and the University of Hannover. Joined Volkswagen in 1982. In 1993–94 he was Regional Manager for the Benelux Countries, the United Kingdom, and Ireland. In 1995–97 he served as Head of Sales in North-western Europe. He became First Vice President of FAW/VW in China in 1997. From June 2000 he was the Company's Head of Sales for Germany. Since January 2004 he has been a Member of the Board of Directors of Škoda Auto with responsibility for Sales and Marketing.

Ing. Martin Jahn (*1970)
Member of the Board of Directors
since 23 February 2006

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. The President of the French Republic made him a member of the Ordre National du Mérit. Since February 2006 he has been with Škoda Auto as the Member of the Board of Directors for Human Resources.

Dr.-Ing. Harald Ludanek (*1958)
Member of the Board of Directors
since 1 April 2005

A graduate of the University of Public Administration and Economics in Sigmaringen, major in customs issues (1979–80), and the Clausthal Technical University, major in mechanical engineering (1986). Upon completing his studies he worked as a researcher in the Department of Applied Mechanics and Vibration of the Institute of Technical Mechanics, Clausthal Technical University, under Prof. Dr. D. Behr, where in 1990 he received a doctorate in mechanics and vibration. In 1989–91 he served on the Academic Board of the Institute of Technical Mechanics at Clausthal Technical University. In 1992 he joined the Group research department of Volkswagen, where he worked in departments focused on special drive and gearbox systems. In 1996 he transferred to Volkswagen Technical Development, where he served in the Whole Vehicle Development area until 1997. In 1997–2000 he was a Technical Development assistant to the member of the Board of Directors and from 2000 he took over management of the Volkswagen Group Development function, a position he held until 2002. Dr. Ludanek joined Škoda Auto Technical Development in 2002 as Head of Development and effective 2005 he was appointed the Member of the Board of Directors responsible for Technical Development.

Supervisory Board

The Supervisory Board oversees the Company's operations and the activities of the Board of Directors. Pursuant to the Company's Articles of Association, it consists of nine members. Six members are elected by the General Meeting (the sole shareholder) and the remaining three are elected by the Company's employees in accordance with Section 200 of Act No. 513/1991 Coll., the Commercial Code, as amended. Members of the Supervisory Board serve for four-year terms, and multiple terms are possible.

Members of the Supervisory Board

Dr. h. c. Ing. Vratislav Kulhánek (*1943)

Chairman, 1 October 2004*

Dr. rer. pol. Carl H. Hahn (*1926)

Honourable Chairman, former Chairman of the Board of Directors, VOLKSWAGEN AG, Wolfsburg, 16 April 1991*

Dr. rer. pol. Wolfgang Bernhard (*1960)

Vice Chairman, 10 February 2005*
Member of the Board of Directors, VOLKSWAGEN AG, Wolfsburg

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (*1951)

Member of the Board of Directors, VOLKSWAGEN AG, Wolfsburg, 1 January 2004*

Reinhard Jung (*1951)

Member of the Board of Directors, VOLKSWAGEN AG, Wolfsburg, 1 July 2005*

doc. Ing. Václav Petříček (*1944)

Deputy Minister of Industry and Trade of the Czech Republic, Prague, 1 February 1996*

Ing. Jan Miller (*1948)

Secretary of the Labour Union branch, OS KOVO ŠKODA at ŠKODA AUTO a.s., Mladá Boleslav, 16 April 1993*

Jaroslav Povšík (*1955)

Chairman of the Labour Union branch, OS KOVO ŠKODA at ŠKODA AUTO a.s., Mladá Boleslav, 16 April 1993*

Ing. Jan Uhlíř (*1944)

Member of the Supervisory Board, ŠKODA AUTO a.s., 11 July 1994*

* Date indicates beginning of membership in the supervisory body.

Changes in the Statutory Bodies

Board of Directors

As of 23 February 2006, Ing. Martin Jahn was appointed to the management of ŠKODA AUTO a.s. as the Member of the Board of Directors in charge of Human Resources.

Supervisory Board

Effective 8 March 2006, doc. Ing. Václav Petříček, CSc. was appointed a Member of the Supervisory Board of ŠKODA AUTO a.s. for another four-year term.

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 subject to the approval of the Supervisory Board under law or the Articles of Association, 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.

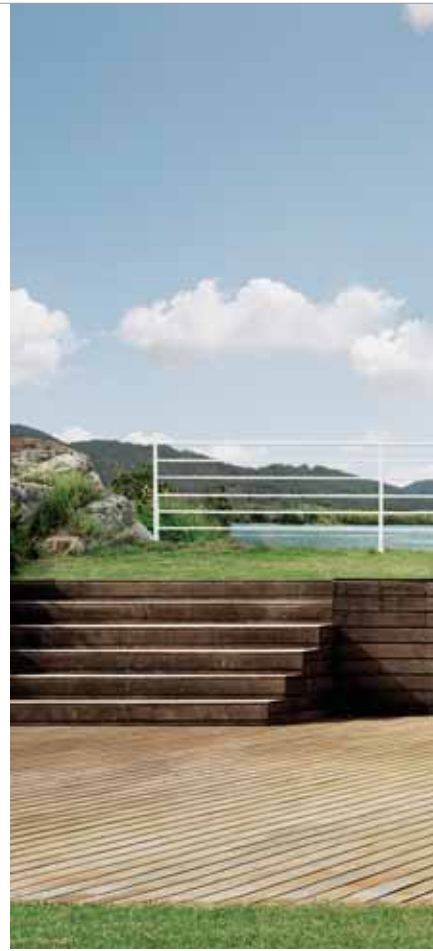
Under a resolution dated 10 February 2006, VOLKSWAGEN AG, as the sole shareholder of ŠKODA AUTO a.s., approved the appointment of PricewaterhouseCoopers Audit, s.r.o., Prague, as the auditor of the Company's financial statements for the fiscal year 2006.

The auditors issued an unqualified opinion on the annual financial statements of ŠKODA AUTO a.s. according to IFRS and the consolidated Group financial statements according to IFRS for the year ended 31 December 2006. At its meeting held on 16 February 2007, the Supervisory Board discussed the financial results and accepted 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 authorised the Board of Directors to submit the 2006 financial statements to the sole shareholder, VOLKSWAGEN AG, for approval.



A handwritten signature in black ink, appearing to read 'Kulhánek', written in a cursive style.

Dr. h. c. Ing. Vratislav Kulhánek
Chairman of the Supervisory Board



MORE ROOM



FOR GROWTH

Our road leads literally to all corners of the earth and is full of curves, inclines, and other places that require increased caution and care. The automotive market is influenced by many external factors and the competition continues to get more and more intense. All the more reason for us to be satisfied with our performance this year, in which we reinforced our positions in Europe and penetrated new markets.

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



2006 was characterised by the successful launch of the Company's fourth model line, the Škoda Roomster, in international markets. Thanks to the "Roomster" and other accomplishments, the Group for the first time exceeded half a million vehicles manufactured and sold in a single year. Thus, the Škoda Auto Group reinforced its dominant position in the markets of Central & Eastern Europe and strengthened its position in the markets of Western Europe. The record production and sales performance was reflected in the financial performance, too. The Group posted record sales and profit. To further the ongoing expansion of the Škoda brand, major steps were taken to penetrate new markets. Preparations for launch of the Škoda brand in the emerging Chinese market were completed and the first steps were taken toward expanding the brand into the Russian market.

Joint operations between the parent company, Škoda Auto, and its subsidiaries are reported on for the Group as a whole (e.g., production and sales). Other activities (e.g., development, purchasing, sponsorship, etc.) are commented on from the perspective of the parent company only.

Development of the Economy

Development of the Czech Economy

The Czech economy maintained its dynamics in 2006. A rapid pace of economic growth was recorded in the first quarter – 6.4% year-on-year. The accelerating growth is a result of several factors: free movement of goods and capital following the country's accession to the EU, new highly productive manufacturing plants going on-line, a stable financial system, and falling corporate income tax rates.

The strongest drivers of economic growth on the demand side were capital spending and household consumption. Of the various sectors, gross value added grew the most in the manufacturing and energy industries. Gross domestic product grew 6.0%* in 2006, compared to 2005.

The rate of growth in industrial production accelerated to 10.0%* in 2006. The sector contributing the most to this growth was manufacturing, and the vehicles and electrical and optical devices segments did especially well. Industrial enterprises under partial or total foreign ownership saw increases in both their number of employees and labour productivity.

Compared to the previous year, consumer prices increased by 1.7% in 2006. The factors driving inflation were an increase in regulated energy prices in January, growing fuel prices, a change in landline tariffs, and growth in food prices. The inflation rate reached 2.5% in December 2006.

The Czech National Bank increased its two-week discount rate twice during the year. At year end it stood at 1.5%, after the CNB moved in September 2006 in reaction to accelerating GDP growth and growing inflationary pressures.

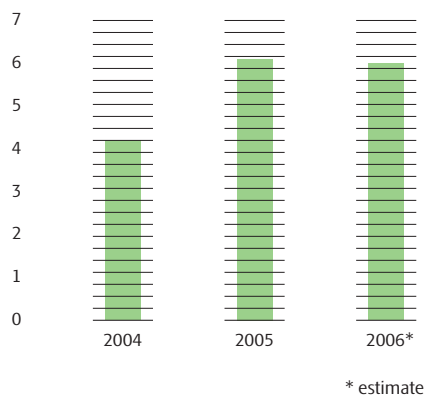
The high rate of economic growth was good for the labour market. The ranks of the employed swelled and there was a slight decrease in the number of people without work. The unemployment rate itself, however, is still exhibiting long-term structural problems. In December 2006 the unemployment rate reached 7.7%.

The foreign trade balance developed favourably in 2006. The result for the whole year was a surplus of CZK 47.3 billion*. The surplus was the highest ever in the Czech Republic's history as an independent state. New export capacities went on-line in the manufacturing sector (and in the automotive industry in particular). This and the improved economic situation in the Eurozone led to an acceleration in the rate of export growth.

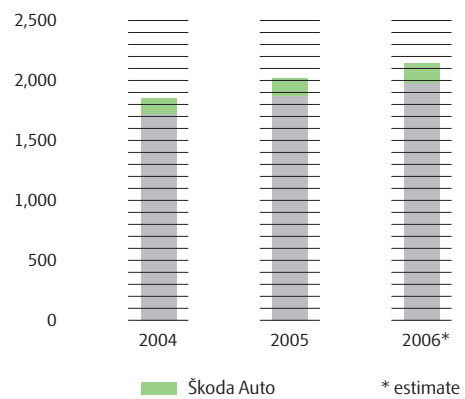
At the beginning of 2006, the Czech Koruna (Crown) traded for about 29 CZK: 1 EUR. At that time, this was near the Crown's historic peak value, which it reached in June 2002. The entire year was characterised by the Crown moving within a narrow band: 29 – 28 CZK/EUR. The Crown's subsequent strengthening up is due primarily to the very good performance of the country's economy.

* Estimate for entire year

Czech Republic GDP Growth, 2004–2006 (%)



Czech Republic exports, 2004–2006 (CZK billions)



CZK/EUR exchange rate





Development of the Global Economy

The global economy grew briskly in 2006. This growth was driven in large part by Asian economies, in particular China and India.

The Eurozone posted the strongest growth since 2000. The EU-12's GDP grew 2.5%* in 2006 (compared to 1.4% in 2005), and the growth was driven in particular by capital spending and exports. There was an upturn in household consumption late in the year, especially in Germany, where VAT is expected to increase by 3% to 19% as of January 2007. The upturn also raised the spectre of high prices for raw materials and higher inflationary expectations, to which the ECB reacted, following a long period of stability, by gradually raising interest rates up to 3.5%.

Central European economies grew faster than their Western European counterparts. The Czech and Slovak economies were the hottest in the region, with Slovakia the better of the pair. The Slovak economy's growth of 7.8%* was driven primarily by household consumption. Rising energy prices spurred inflation, which caused interest rates to rise. The National Bank of Slovakia increased rates several times in 2006, up to 4.75%. Despite the strong economic growth, the unemployment rate remained high at 12.8%*.

GDP growth in Poland was 5.5%* (2005: 4.4%), and was driven primarily by corporate and government capital spending. Inflation remained under control at 1.4% and interest rates were at a historic low.

* Q1 - Q3

Development of the Automotive Market

Czech Republic

In the domestic market (after Germany the largest market in terms of Škoda vehicle sales), newly registered passenger car sales volume totaled 125,000 units, a year-on-year decline of 2,400 units (-2.0%). Demand for light commercial vehicles, on the other hand, was very strong and volume in this segment increased by 28.0% to a total of 50,000 units.

Central Europe

The biggest Central European market, Poland, was flat compared to the previous year with 235,000 new passenger cars sold. This is far below the market's potential. There was a significant decline in demand for new passenger cars in Hungary (down 6.0% to a total of 187,000 vehicles). High-growth markets included Croatia (+10.0%) and Slovakia (+3.5%).

Eastern Europe

New passenger car markets in Eastern Europe continued to grow at a fast pace in 2006. The biggest year-on-year increases were seen in Russia (total 1.63 million vehicles, up 22.0%), Romania (250,000, +17.0%), and Ukraine (370,000, +39.0%). Very significant year-on-year increases were also posted in Lithuania, Latvia, Estonia and Bulgaria.

Western Europe

The overall market for new passenger cars in Western Europe, totaling 14.6 million registered vehicles, was slightly up from 2005's level. The biggest Western European market, Germany, saw demand for passenger cars increase by 100,000 compared to the previous year. The large number of new models and, late in the year, increased buying ahead of an increase in the VAT rate as of 1 January 2007 both contributed significantly to the total figure of 3.4 million newly registered passenger cars.

Other positive growth markets in the region were Italy, Belgium, the Netherlands, Sweden, Denmark and Ireland. In the UK, France, Spain and Greece, on the other hand, the number of newly registered passenger cars declined.

Asia

2006 saw continued dynamic growth in demand for passenger cars in China and India. With a total of 4.1 million vehicles sold (+25.0% compared to 2005), China became the number-three passenger car market in the world (after the USA and Japan). India achieved 20.0% year-on-year growth in volume with 1.1 million new passenger cars sold.

Risk Management System

The Škoda Auto Group's business activity is associated with a wide range of business risks, any of which could potentially impact the business position. As part of the risk management strategy, these risks are identified, quantified, and eliminated/minimised. Risk management is reflected in all corporate processes. Individual departments within the Group are designated focus areas along with notification and record-keeping requirements. Risks are taken into account only in the event they are directly quantifiable. In such cases the risks are further measured and evaluated in the context of the risk management system and its pre-defined responsibility areas. Additionally, the probability of realisation of individual risks is determined and their potential impact on the Group's assets and revenue streams is quantified. Subsequently, reports on key risks and measures to eliminate/minimise them are regularly submitted to management.

The Group focuses on the following key areas of risk:

Risk Ensuing from Macroeconomic Factors in the Automotive Industry

Due to the character of its business, the Group is dependent on the state of the overall economy. Lacklustre economic performance or recessions, especially in the region of Western and Central Europe, have a direct impact on consumer behaviour in the automotive sector. Since the Group is exposed to the negative influence of cyclical fluctuations, the risk of revenue declines due to poor performance of the overall economy and subsequent market slowdowns cannot be eliminated. In addition, competition in the automotive sector is becoming fiercer as players continue to ramp up their sales support activities, further exacerbating the market risks.

The parent company, Škoda Auto, as a major exporter and, at the same time, an owner of equity stakes in companies outside the Czech Republic, generates a substantial portion of its cash flow in foreign currencies. Movements in currency exchange rates pose a significant risk. As Škoda Auto's international activities grow, it is becoming necessary to pay more and closer attention to the management of these risks. Interest rate, liquidity, territorial and political risks are hedged using standard financial hedging instruments. Detailed information on the financial risk management policy, especially as it relates to the use of financial derivatives, is provided in Notes to the Škoda Auto Consolidated Financial Statements in the chapter "Financial Risk Management".

Other risks threatening Group revenue streams ensue from ongoing price growth in international commodities markets. Other factors that could potentially have a negative impact on Group financial performance include unplanned technical development expenditures to comply with amended legislation, such as stricter legislative requirements for vehicle safety, fuel consumption, and emissions, as well as revisions to standard vehicle specifications.

General Operating Risks

The general operations of Škoda Auto Group are subject to a number of varying risks that could potentially weaken the Group's financial position and performance. Commensurate insurance coverage is carried to cover potential losses caused by energy outages, equipment breakdowns, fires, floods, etc. Close co-operation between car manufacturers and their suppliers is 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. Although Škoda Auto Group uses an effective and systematic approach to quality management, product liability risks cannot be entirely eliminated. These risks could result in financial losses and at the same time tarnish the brand's image.

Overall Risk Evaluation

Compared to the previous year, the risk situation remains essentially unchanged. The risk areas described above could endanger the Group's financial position and performance. However, through our proactive approach to executing the risk management strategy, these risks are identified in timely fashion and either eliminated or minimised. In other words, to the extent of the details and circumstances as currently known, there are no known risks that could have an impact on the Group's business in the foreseeable future.



Manufacturing plant in India

Financial Situation of the Škoda Auto Group

The consolidated financial results of Škoda Auto Group are reported according to International Financial Reporting Standards. The consolidated financial results include the results of the parent company, Škoda Auto, those of its subsidiaries Škoda Auto Deutschland (SAD), Škoda Auto Slovensko (SAS), Škoda Auto Polska (SAP) and Škoda Auto India (SAIPL) and a share in the profit of the associate Volkswagen Russia. The subsidiaries account for slightly under 10% of the overall Group financial results.

The success of the Group's expansive policy led, among other things, to growth in all significant financial indicators. Sales revenues increased year-on-year by 8.7% to reach CZK 203.7 billion, passing the CZK 200 billion mark for the first time. The Group's operating profit grew 34.5% to CZK 14.6 billion and profit before tax was at a record level – CZK 14.2 billion (+41.0% year-on-year). The increase in profit before tax boosted the profit before income tax-to-sales ratio (+5.4% year-on-year) to 7.0%.

The Group's asset structure expressed in terms of the distribution between fixed and current assets did not change significantly compared to 2005. Likewise, the capital structure remained essentially unchanged. The Group has no debt exposure that could have an impact on its financial stability in the near future. Operating cash flow increased 16.4% year-on-year to reach CZK 27.4 billion. The net liquidity indicator grew by CZK 16.3 billion compared to the previous period. For all existing and potential business partners, the favourable development in cash flow and net liquidity are a good demonstration of the Group's current financial stability and solvency.

Balance Sheet and Financing

Compared to their level at 31 December 2005 (CZK 89.8 billion), total assets increased by CZK 15.5 billion, primarily as a result of higher current lendings to the Volkswagen Group.

Compared to 2005, there was a slight year-on-year decline in fixed assets (-2.4%). The cause is the delay between when assets are put into service and when depreciation/amortisation begins. As part of the preparations for series production

Financial Situation

of the new Škoda Roomster, the parent company acquired substantial fixed assets in late 2005. However, depreciation/amortisation of these assets did not begin until the next year (2006).

Current assets were up 49% year-on-year on an increase in cash and cash equivalents in the item "Other receivables and financial assets". Despite a major increase in production volume and the launch of a fourth model line, inventories at year end 2006 remained at essentially the same level as in the previous year (-0.2%). This was achieved by ongoing optimising of logistical processes and sales policies (vehicles are manufactured to fill orders, and not warehouses). Despite growth in revenues from the sale of vehicles and genuine parts, trade receivables were down for the year (-11.7%). This was thanks to more extensive use of factoring services as an instrument for cash flow management and to eliminate financial risk.

Equity without minority interests grew in line with the Group's overall performance. Compared to the previous year, Group equity was up over CZK 11.6 billion (+24.8%). The growth was driven by the increase in profit.

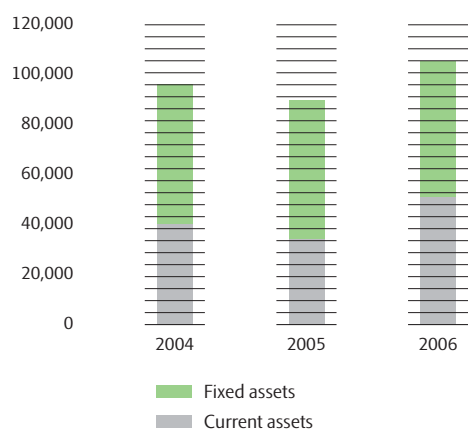
Non-current liabilities were down 4.2% from the previous year. Contributing to the decline in non-current liabilities was the reclassification of certain obligations from non-current to current financial liabilities due to a change in the times-to-maturity of outstanding bonds (60.0% decline year-on-year). Non-current provisioning, on the other hand, was up 59.2% due to increased provisioning for warranty repairs, which is dependent on the number of vehicles sold.

Current liabilities increased by 14.7% year-on-year, due primarily to the already mentioned reclassification of financial liabilities (+115.4%). Current provisioning, on the other hand, was down 8.3% year-on-year.

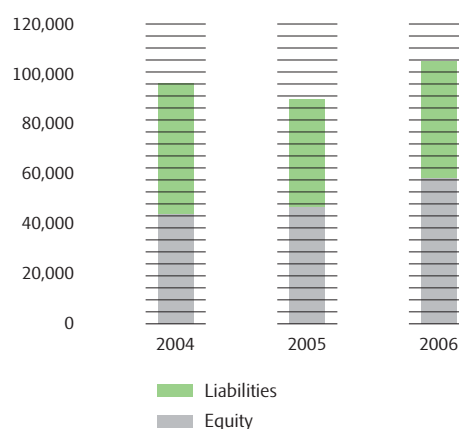
In 2006, an increase in total spending on tangible and intangible fixed assets was CZK 8.4 billion. The overall capital spending figure was down CZK 0.4 billion (-4.6%)

from 2005, due to the cyclical nature of our business, as new products enter production. The largest component in the overall capital spending figure was new product expenditures (CZK 5.6 billion) – in particular for the Škoda Fabia successor vehicle and the new Škoda Roomster model line. Spending on upgrading manufacturing plants and new infrastructure totalled CZK 787.5 million.

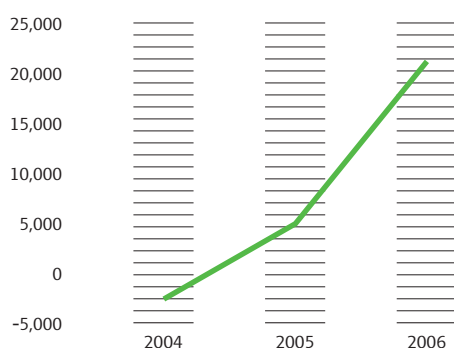
Škoda Auto Group's asset structure, 2004–2006 (CZK millions)



Škoda Auto Group's capital structure, 2004–2006 (CZK millions)



Net liquidity of Škoda Auto Group, 2004–2006 (CZK millions)



Profit before/after income tax-to-sales ratio of Škoda Auto Group, 2004–2006 (%)





In a joint project with Volkswagen Group, the Group took a stake in Volkswagen Russia and subsequently increased that company's basic share capital. The total invested in this transaction was CZK 187 million.

The ongoing positive development of all material balance sheet and profit and loss account figures led to growth in both cash flow and net liquidity. Net cash flow (cash flows from operating and investing activities) was up CZK 4.3 billion (+36.3%) compared to 2005. The total cash flow figure grew by CZK 18.9 billion. Net liquidity rose by CZK 16.3 billion to reach CZK 21.2 billion. Thanks to the favourable cash flow performance, the Group was able to finance all of its capital spending needs from equity.

Profits

Development of Group sales revenues followed closely the growing sales of Škoda brand vehicles in world markets, reaching a level of CZK 203.7 billion (+8.7% year-on-year). The overall sales figure can be broken down as follows: vehicles, 88.7%; genuine parts and accessories, 7.3%; supplies of parts to other Volkswagen Group companies, 2.9%; and other goods and services accounted for the remaining 1.1%.

Cost of products, goods, and services sold totalled CZK 175.6 billion (+7.3% year-on-year). Here, materials were the largest component and they were affected by a change in the product mix (higher share of more valuable vehicles in overall production) as well as by worldwide growth in prices of production inputs – especially steel and crude oil.

The ratio of costs of products, goods, and services sold to sales revenues fell year-on-year by 1.2%. This resulted from ongoing optimising measures in the production costs area as part of the Volkswagen Group-wide "ForMotion Plus" program and it affected gross profit as well. Gross profit increased by CZK 4.4 billion to reach CZK 28 billion.

Distribution expenses increased year-on-year by CZK 1.3 billion (+12.2%). The principal causes of the growth in distribution expenses were higher advertising expenses; this was related to the market launch of the new Škoda Roomster model line. Most of these expenses originated in the parent company, Škoda Auto, and its subsidiary, SAD.

Administrative expenses were down slightly (-2.4%) for the year, thanks to process optimizing.

Other operating expenses, on the other hand, increased slightly (+6.1% year-on-year), due principally to realised and unrealised currency losses in the parent company and the subsidiary SAIPL. Other operating revenues increased by CZK 720 million (+17.9% year-on-year), mainly as a result of the reversal of provisions for process risks as well as realised and unrealised currency gains in the parent company and the subsidiary SAIPL.

The operating result was up year-on-year by 34.5%, which equates to an absolute increase of CZK 3.7 billion.

The financial result also moved in a positive direction. The overall financial loss was reduced by 48.7% year-on-year. The principal causes for the year-on-year narrowing of the overall financial loss were lower interest costs, thanks to repayment of Tranche One of the bond issue in 2005, and growth in interest revenues on loans extended to other Volkswagen Group companies.

The consolidated profit before income tax figure reached a new record level of CZK 14.2 billion in 2006 (+41% year-on-year). After deducting income tax due and deferred, the consolidated profit after income tax was CZK 11.1 billion, an improvement of 40.2% over the previous year.

Consolidated Balance Sheet (CZK millions)

	31. 12. 2004	31. 12. 2005	31. 12. 2006	2006/2005
Non-current assets	55,858	55,424	54,070	(2.4%)
Current assets	40,343	34,331	51,142	49.0%
of which: lendings*	8,600	11,208	23,971	113.9%
Total assets	96,201	89,755	105,212	17.2%
Equity**	43,923	46,757	58,321	24.7%
Non-current liabilities	12,051	12,837	12,297	(4.2%)
of which: nominal value of bonds	5,000	5,000	3,000	(40.0%)
Current liabilities	40,227	30,161	34,594	14.7%
of which: nominal value of bonds	5,000	0	2,000	-
Total liabilities	96,201	89,755	105,212	17.2%

* interests included

** minority shares included

Consolidated Profit and Loss Account (CZK millions)

	2004	2005	2006	2006/2005
Sales	163,665	187,382	203,659	8.7%
Cost of goods, sold	144,368	163,738	175,636	7.3%
Gross profit	19,297	23,644	28,023	18.5%
Distribution expenses	10,278	10,611	11,903	12.2%
Administrative expenses	3,513	3,676	3,587	(2.4%)
Other operating income	3,514	4,027	4,747	17.9%
Other operating expenses	3,125	2,524	2,687	6.1%
Operating profit	5,895	10,860	14,602	34.5%
Financial result	(1,052)	(787)	(404)	48.7%
Profit before income tax	4,843	10,073	14,198	41.0%
Income tax expense/income	1,474	2,180	3,136	43.9%
Profit after income tax	3,369	7,893	11,062	40.2%

Financing – Development (CZK millions)

	2004	2005	2006	2006/2005
Cash and cash equivalents at 1.1.	3,221	15,073	12,376	(17.9%)
Cash flows from operating activities	26,794	23,550	27,420	16.4%
Cash flows from investing activities	(9,752)	(11,566)	(11,090)	(4.1%)
Cash flows from financing activities	(5,153)	(14,670)	(156)	(98.9%)
Gross liquidity	15,073	12,376	28,483	130.1%
Balance of financial liabilities	(17,704)	(7,465)	(7,326)	-
of which: factoring	(6,440)	(1,799)	(2,333)	-
Net liquidity	(2,631)	4,911	21,157	330.8%

Financial Situation of Individual Group Companies

This part of the Annual Report comments on the financial performance figures of the parent company, Škoda Auto, and its subsidiaries. These figures are in accordance with International Financial Reporting Standards.

Škoda Auto

Like the previous year, 2006 was one of the most successful years in the Company's over 100-year history – both in terms of sales and production indicators and in terms of financial performance. Sales revenues were up by over 6.7% to reach a record level of CZK 189.8 billion. The operating result reached a level of CZK 13.8 billion and profit before income tax rose 43.6% year-on-year. Growth in cash flow resulted in improved net liquidity. In view of the fact that the parent company accounts for approximately 90% of the Group's overall results, there is a large degree of correlation between its financial performance and that of the Group as a whole.

Balance Sheet and Financing

The total assets figure, CZK 97.4 billion, was up 16% compared to its level as of 31 December 2005 (CZK 84 billion). Fixed assets fell from CZK 55.0 billion to CZK 53.7 billion. Inventories expanded slightly (+5.5% year-on-year) due to increased production volumes in existing models and commencement of production of the new Škoda Roomster. Loans to Volkswagen Group companies grew by CZK 12.8 billion (+113.8%). Receivables shrank slightly (-3.1%) as a result of increased use of factoring.

Shareholders' equity developed in line with the Company's overall performance during the year. Compared to the previous year, shareholders' equity increased by CZK 11.5 billion (+24.8%). Overall, current liabilities grew by CZK 4.2 billion year-on-year (+16.3%), while non-current liabilities declined (by CZK 2.3 billion, or -19.6%) compared to the previous period.

An increase in overall spending on tangible and intangible fixed assets was CZK 8.2 billion in 2006. Total capital spending was CZK 0.4 billion (-4.7%) less than in the previous period, due to the cyclical nature of the Company's business, as new products enter production. Like in the previous year, cash flow from operating activities (CZK 24.2 billion) was sufficient to cover overall capital expenditures. The net liquidity indicator stood at CZK 19.4 billion.

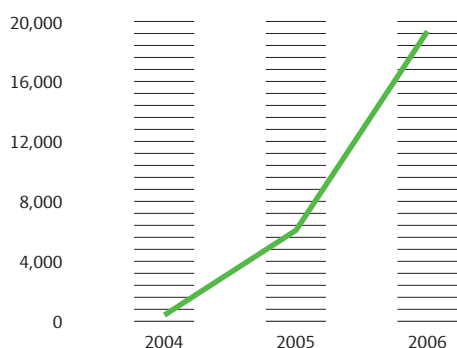
Profits

Compared to the previous year, sales revenues were up CZK 12.0 billion (+6.7%) to reach CZK 189.8 billion. The biggest contributors to this record-breaking rise in revenues were increased demand for vehicles with more features and increased sales of genuine parts. Sales revenues can be broken down as follows: vehicles, 89.8%; genuine parts and accessories, 5.9%; components deliveries, 3.2%; and other goods and services accounted for the remaining 1.1%.

Higher sales volume and a worldwide growth in raw materials prices had an impact on the overall level of costs of products, goods, and services sold. Compared to the previous year they increased by 5.4%. Thanks to optimising measures taken in the production function, the ratio of production costs to overall sales revenues was reduced by 1.2%. Distribution expenses were up 5.3% from the previous year, driven in particular by increased marketing support and advertising costs. Administrative expenses saw a moderate decline (-5.0% year-on-year).

As a result, the operating result grew by 37.7%, or CZK 3.8 billion. The financial result, too, continued to move in a positive direction. Primarily as a result of lower interest costs, the loss was CZK 348 million (-61.7%) lower than the previous year's figure. After deduction of income tax due and deferred totalling CZK 2.7 billion, the profit after income tax came to CZK 10.9 billion (2005: CZK 7.4 billion), an improvement of 47.8%.

Net liquidity of Škoda Auto, 2004–2006 (CZK millions)



Profit before/after income tax-to-sales ratio of Škoda Auto, 2004–2006 (%)



Škoda Auto Deutschland

2006 was a very successful year for the Škoda brand in the German market. Škoda Auto won a number of awards here. For example, the Škoda Octavia 4x4 won the Allrad Auto 2006 award, the Škoda Superb was awarded the Business Diamond, and the Škoda Octavia Combi took the Red Dot Design Award as well as the "Beliebtes Importauto" title (the most popular imported vehicle).

Škoda Auto Deutschland succeeded in growing its market share by 0.3 of a percentage point to 3.0%. The popularity of the Škoda brand continued to grow: 103,931 vehicles were delivered (an increase of 13,828 vehicles year-on-year). Thanks to this large increase, Škoda Auto Deutschland won 3rd place amongst importers in terms of the number of vehicles delivered. The market launch of the new Škoda Roomster in September 2006 was also very well received by German customers. The new vehicle quickly attracted their attention and 3,843 Roomsters were sold in Germany by the end of 2006.

The market's growth reflected favourably on the top and bottom lines of Škoda Auto Deutschland. Sales revenues in 2006 reached a total of CZK 45.3 billion (EUR 1,596.8 million), up 23.6% from the previous year. Profit before income tax in accordance with IFRS totalled CZK 268.6 million (EUR 9.5 million), an increase of 46.2% over 2005.

Škoda Auto Deutschland improved its net liquidity, meeting and exceeding its goal of achieving a positive figure. Net liquidity in 2006 was CZK 1.1 billion (EUR 41.2 million), which is CZK 1.8 billion (EUR 64.1 million) more than in 2005. This was achieved by optimising stock levels and applying a strict policy of selling off – via factoring – receivables for vehicles sold.

Škoda Auto Polska

Due to a flat market for new vehicles in Poland, Skoda Auto Polska embarked on a series of sales and marketing initiatives. Despite the overall market performance, 28,783 Škoda brand vehicles were sold and that is more than in the previous year (an increase of 1,134 vehicles). This increased Škoda Auto Polska's market share by 0.3% to 12.0% and for the second year in a row it was the best selling car brand in the Polish market.

Profit before income tax, in accordance with IFRS, totalled CZK 32.4 million (PLN 4.5 million), which is CZK 3.8 million (PLN 0.4 million) less than 2005's figure. The main reason was increased expenses incurred in 2006 to comply with a new recycling law.

Strict use of factoring to manage receivables for vehicles sold brought sharp improvement in positive net liquidity, which reached CZK 110.5 million (PLN 15.4 million) at year end 2006. Compared to 2005, this represents an increase of CZK 530.5 million (PLN 71.3 million).

Škoda Auto Slovensko

Heavy competition set the stage for the development of Škoda's market share, which was maintained at 36.0% (2005: 36.2%). In 2006, Škoda Auto Slovensko sold 21,380 vehicles, up 616 vehicles from the previous year. The Škoda Fabia, Škoda Octavia and Škoda Superb continued to be the best selling car models in their segments in Slovakia.

Despite increased expenditures to support sales and address the intensified competition, profit before income tax, according to IFRS, totalled CZK 24.6 million (SKK 29.9 million), a year-on-year increase of CZK 9.7 million (SKK 11.4 million).

In order to meet the goal of positive net liquidity in 2006, new optimising measures were put in place, including a greater emphasis on managing sales according to market requirements and customer needs. This led to optimising of individual deliveries to dealers and the overall level of stock. We were also able to substantially reduce overdue payables. The implementation of these measures brought a CZK 395.4 million (SKK 506.0 million) improvement in net liquidity compared to 2005 and thus, for the first time since its establishment, Škoda Auto Slovensko achieved positive net liquidity (CZK 185.4 million; SKK 232.2 million).

Škoda Auto India

2006 was a very successful year for the Škoda brand in the Indian market. Škoda Auto Group won a number of prestigious awards for its products in India during the year. Especially worthy of mention here is the Car of the Year 2006 award in the upper mid-range car category and an award for the technologically most advanced vehicle in the market. Both of these awards were won by the Škoda Octavia, which in the Indian market is sold under the name Laura. Škoda brand vehicles also scored another major success in the renowned study by J. D. Power Asia Pacific, which monitors customers' satisfaction with passenger cars. In this study, Škoda Octavia vehicles won recognition particularly in the IQS (Initial Quality Study) area.

Since Škoda Auto Group first commenced operations in India, 37,917 Škoda brand vehicles have rolled off the Indian production lines here. In 2006, the Indian plant manufactured a total of 12,599 vehicles. Indian customers purchased 12,105 vehicles, which is 35.2% more than in 2005. The plant employed 378 people at year end 2006 and its production capacity is around 28,000 vehicles per year.

India is a fast-growing market where the Škoda brand has successfully established a significant presence. Škoda cars command a market share of 26.7% in their segment (an improvement of 2.0% over 2005). Additional dealers were added to the dealer network, bringing the number of Škoda Auto Group sales locations in India to 48 at the end of 2006.

2006 profit before income tax totalled CZK 240.1 million (INR 486.2 million). Skoda Auto India succeeded in increasing its net liquidity by CZK 240.7 million (INR 548.5 million) year-on-year, to CZK 375.3 million (INR 795.7 million).



Virtual reality studio

The Group is committed to improving its cars continuously and expanding its model lines, to strengthen its competitiveness and to enter successfully new markets like China or Russia. The model lines Škoda Fabia, Škoda Octavia Tour, Škoda Octavia and Škoda Superb with their different derivatives (variants) and engines are now complemented by the newest model line, the Škoda Roomster. Škoda cars are setting standards – becoming the benchmark – in their categories and are meeting with approval by our customers. These innovations and improvements allow us to fulfil increasingly tight regulatory requirements and even exceed them, as well as to meet the demands of laws, e.g. the prohibition on heavy metals in the field of environmental protection.

The New Concept of the Škoda Roomster

In March 2006, Škoda's fourth model line – the Škoda Roomster – was presented to the public for the first time at the Geneva Motorshow. With its generous roominess and the versatility of the rear seat arrangements, the Škoda Roomster is positioned between the typical small and middle class vehicles of the Golf segment.

This roomy vehicle offers a unique concept in its segment with a high level of quality and an extraordinary price-value relationship. This car has been well received by journalists and experts, with Škoda Roomster winning many group tests and awards.

“Škoda – Simply clever” is the brand slogan and working philosophy at the same time: With many simply clever technical details, like the Varioflex®-rear seating system; the curve and cornering lighting that allows drivers to detect obstacles earlier; the active safety of the suspension and power train in combination with the ESP (Electronic Stability program); and an optimised passenger protection achieved by excellent choice of materials, Škoda provides its customers with an extraordinary offer in

Technical Development

this segment. In the Euro-NCAP safety test, the Škoda Roomster received five stars and surpassed many of its competitors with this high level of safety.

The construction principle of the Škoda Roomster is totally new: The Škoda Roomster is the first car concept that implements the module strategy by using proven modules and components from the Volkswagen Group. The front of the car is taken from the Škoda Fabia, the rear axle from Škoda Octavia Tour and the rear platform is from the Volkswagen Golf. In this way, investment and development costs could be reduced and the money saved used for the development of useful clever solutions in the interior. The successful use of the module strategy will be a milestone for efficient development of future derivatives.

The Škoda Roomster concept will provide ideas for other models like the Škoda Roomster Scout, Škoda Roomster Praktik and police cars und taxis.

The New Škoda Fabia Successor

The new Škoda Fabia will be presented the first time at the Geneva Motorshow in March 2007. It will be the successor to the current model, which has recorded more than 1.5 million sales worldwide. With its fresh and sporty styling, the new Škoda Fabia will be more attractive for young families. Its practicality and affordability will guarantee a strong position in its segment.

In addition to current safety regulations, the new Škoda Fabia, like the Škoda Roomster, meets pedestrian protection requirements that will come into effect in 2010. The modern electronic architecture and the modern engine program are not only the foundation to fulfil current emission standards but are also designed to meet stricter future regulations. Cornering lights, curve lights, new radios and navigation systems, intelligent storage concepts, improved seat positioning as well as generous interior roominess, are only some of the advantages of this new Fabia. With its optimised driving behaviour and safety standards, the Škoda Fabia is set to achieve top results in European crash test like Euro-NCAP.

The Škoda Octavia Success Story

The Škoda Octavia model line was given new engines and equipment in 2006. All diesel engines are now available with particle filter, either as an option or as standard. Since August 2006, the 2.0L 125 kW (170 hp) diesel engine with particle filter has been offered in the Škoda Octavia RS, complementing the 2.0L 147 kW (200 hp) petrol engine. In this sporty car, this power train will convince with the high torque of 350 Nm and fuel consumption of only 5.8L/100 km.

For the more refined, demanding customer, Škoda now offers a special model, the Laurin & Klement, which is equipped with a high-level interior including leather seats, white-illuminated instruments and interior lighting as well as chrome and wood elements that give the car a feeling of luxury.

From the beginning of 2007, the Škoda Octavia 4x4 has been extended with a special Combi derivative, the Škoda Octavia Scout. The Škoda Octavia Scout was presented the first time at the 2006 Auto Salon Paris. This car has a ground clearance of 180 mm, 40 mm higher than in the standard version. The well-proven automatic Haldex®-four wheel drive system, the robust bumpers and the add-on parts in plastomer (plastic) materials distinguish this off road concept. With the strong 2.0L 110 kW (150 hp) FSI petrol engine and the 2.0L 103 kW (140 hp) diesel engine, the Škoda Octavia Scout will provide good performance in light off-road conditions.

Škoda's Upper Class – the Škoda Superb

In model year 2007, the Škoda Superb received a styling facelift. New headlamps, modern tail lamps, the sculptured front grill and side mirrors with integrated indicators give the car a modern, attractive and high-level appearance.

New modern textiles, fine decorative wood elements and white-illuminated instruments give a pleasant atmosphere in the interior. With the new engine program, future emission regulations are met. With its outstanding rear seat roominess, the Škoda Superb is an excellent chauffeured limousine. The dynamic six-cylinder engine is also very enjoyable for owners without chauffeurs!



A Glimpse of the Future – the Škoda Joyster

In 2006, Škoda Auto presented the Škoda Joyster showcar at the 2006 Auto Salon Paris, demonstrating again the brand's competence in styling and giving a glimpse of the future. This sporty three-door concept car showed a new interior concept with a complete CarPC with a local area network (LAN) integrated into the dashboard.

The integration of ultra mobile personal computers (UMPC) will perhaps become the next generation of today's cable harness architecture. The infotainment centre with DVD-Player, radio and navigation system will be integrated into the CarPC, as will the elements air conditioning and interior lightning. New materials will provide high quality and the functional dashboard elements at an excellent price value relation. The folding seat in the rear hatch door demonstrates Škoda's clever solution for leisure and sport activities. The Škoda Joyster could be the car of the future that the younger generation is dreaming about today.

Extension of the Technical Development – Strengthening and Enlargement of Competencies

In the next two years, an investment programme of CZK 1.16 billion for modernising the Technical Development Centre will be completed. New test beds, new construction and test facilities will be installed and new workplaces for engineers and technicians will be created. The increasing demands of electronic components, new materials and new innovations in the automobile industry require qualified engineers. With defined support of research projects in co-operation with a number of technical universities and the integration of Škoda's own employees in the lessons, the Group supports the practical-orientated education of engineers.

In annual dialogue conferences between the Škoda management and representatives of the universities, the activities and study programmes are defined, based on needs. The fields of aerodynamic simulation or the cooling calculation of brake discs are only some examples of the new methods and concepts for the optimisation of brakes and reduction of heavy metals in catalytic converters.

The Technical Development Centre of the Group is the third largest Centre in the entire Volkswagen Group. In the field of our competences and profile, Škoda cooperates with the other 18 Development Centres of the Volkswagen Group and in this way supports the exchange of intercultural work.

In 2006, primary proficiencies such as styling, exterior and interior development as well as the use of digital and virtual techniques in the development process were improved. The quality of production cars and the improvement of three-cylinder-engines, the application of other Group engines, durability- and

functional testing, and the development of the electric- and electronic architecture were other main areas in which work was focussed.

In the year 2006 the Group spent CZK 4.7 billion for the development of vehicles, model changes, concept cars and for the improvement of existing model lines. This is about 2.5% of the overall sales. At 31 December 2006, 1,420 employees worked in Technical Development.

Škoda Motorsport

The Group has more than 100 years of tradition in rallysport. In 2006, the Škoda Fabia WRC took part in selected events of the World Rally Championship. Škoda Motorsport concentrated its activities on supporting three private teams: "Škoda-Red Bull Rally Team", "Czech Rallye Team Kopecký-Škoda" and "First Motorsport" with the young talents of driver Andreas Aigner, Jan Kopecký and Francois Duval, who were able to get worthwhile rally experience.

The Fabia with its 2005 homologation status showed good performance and competition in Rallye Catalunya and Rallye Germany where the Fabia finished in fifth and sixth places respectively.

In the 2007 season, Škoda Motorsport will continue to support private teams in the World Rallye Championship. But the main task will be a new orientation on customer and public motorsport. The regulations of the new FIA Super 2000 category will be an excellent basis for private teams in national rallysport. The development of this new S2000 series will give our engineers in the Technical Development Centre the opportunity to create new technical concepts and ideas outside the frame of daily business, which can then be tested in the rallies.

Purchasing

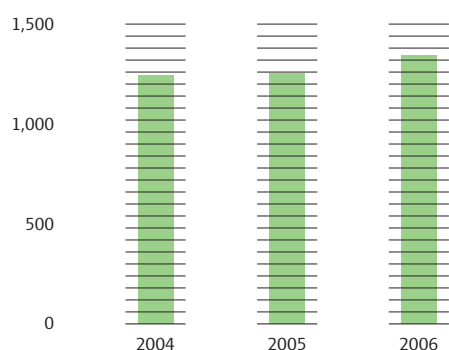


The key criterion of Škoda Auto's strategy is quality. Suppliers are selected in a systematic, controlled process involving the technical development, quality, and production functions. Purchasing's most important activity in 2006 was to secure everything needed for the series production of the new model line, the Škoda Roomster.

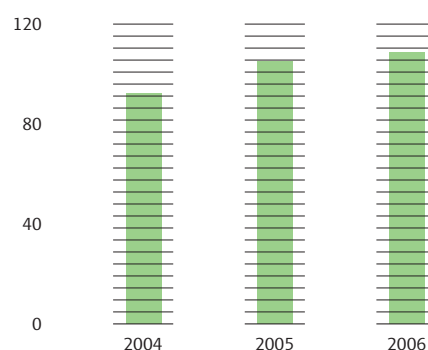
Overall, production-related purchasing in 2006 totalled CZK 108.8 billion (2005: CZK 105.2 billion). The share of domestic suppliers was 62.6% (2005: 63.9%). More and more, suppliers from Central & Eastern Europe who satisfy the strict eligibility conditions are also winning contracts within the Volkswagen Group. As this trend continues, supplies from Central & Eastern Europe to other Volkswagen Group companies are growing steadily.

The actual process of selecting suppliers is powered by modern information and communications technology. One of the most important applications in our Internet B2B platform is on-line negotiations. 403 on-line negotiations took place in 2006 (2005: 220) with a total value of CZK 8.3 billion (2005: CZK 15.3 billion).

Number of suppliers



Purchasing volume (CZK billions)





MORE ROOM



FOR CHALLENGES

To make cars that are capable of fully satisfying a wide range of customers is not only a task for us – it is also an amazing challenge. In 2006, for the first time in history, we succeeded in surpassing the magic number: half a million vehicles produced and sold.

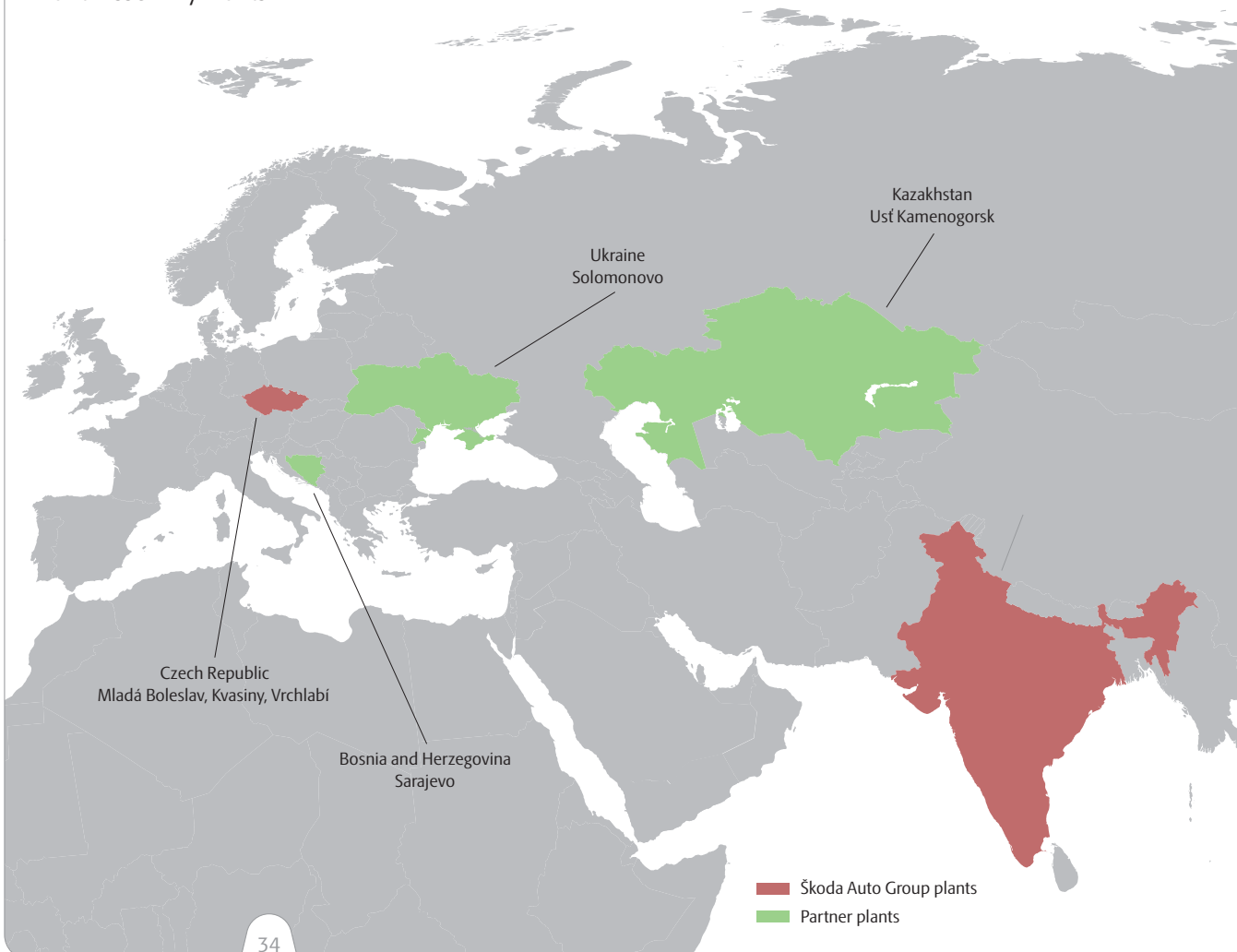
Production and Logistics

Škoda brand cars are the main products of Škoda Auto Group. The Group competes in the market with a product portfolio composed of four model lines: the Škoda Fabia, the Škoda Octavia, the Škoda Superb, and the Škoda Roomster.

All of the Group's manufacturing plants are located in the Czech Republic (Mladá Boleslav, Vrchlabí and Kvasiny) and in India (Aurangabad). Partner plants that are not part of the Group are located in Ukraine (Solomonovo), Bosnia and Herzegovina (Sarajevo) and Kazakhstan (Ust' Kamenogorsk).

The parent company produces finished vehicles as well as vehicle kits in various stages of disassembly. Vehicle kits are shipped from the Company's production plants and assembled in the assembly plants. The Company also manufactures engines, gearboxes, engine and gearbox components, and genuine parts and accessories.

Škoda Brand Vehicle Production and Assembly Plants



Vehicle Production

For the first time in Group history, more than 500,000 vehicles were produced in a single year. The total number of vehicles produced in 2006 was 556,347. This represents a 12.6% increase in production volume over 2005 (494,127 vehicles). 2006 saw two new vehicles enter production – series production of the Škoda Roomster in March, and series production of the Škoda Fabia hatchback successor in December.

Škoda Fabia

The Škoda Fabia model line is produced in three different versions – compact hatchback, roomy and elegant combi, and classic sedan. For sport car lovers, the hatchback is also made in an RS version. The Škoda Fabia is sold with five petrol engine options ranging from 40 to 85 kW as well as four diesel engines starting at 51 kW up to the turbodiesel 1.9 TDI PD/96 kW for the RS version.

An upswing in demand for the Škoda Fabia in 2006 made it necessary to ramp up production. A total of 240,919 vehicles rolled off the production lines, up 6.5% from the previous year.

In the second half of the year, preparations were made to put the Škoda Fabia successor into series production. Extensive changes were made in the body shop, and smaller adjustments took place in the paint shop and assembly areas in the Mladá Boleslav plant. Series production commenced successfully in December and by the end of the year the first 196 vehicles had been manufactured.

Škoda Octavia Tour and Škoda Octavia

The Škoda Octavia Tour is produced in liftback and combi versions. For the Škoda Octavia Tour, the following modern petrol engines are available: 1.4 MPI/55 kW (liftback only), 1.6 MPI/75 kW (with automatic gearbox as an option) and 1.8 T/110 kW. The offering is rounded out by a fuel-efficient turbodiesel 1.9 TDI PD/74 kW.

The Škoda Octavia Tour remains an important product for the brand. In fact, thanks to the vehicle's unflagging popularity, production was upped once again in 2006, to 69,124 vehicles, outperforming 2005 by 4.2%. Production was centred in the Vrchlabí plant and no changes are planned for the upcoming period. Škoda Octavia Tour vehicles continue to be assembled in India, Ukraine, Bosnia and Herzegovina, and in Kazakhstan.

Like the Škoda Octavia Tour, the Škoda Octavia is produced in liftback and combi versions. The Škoda Octavia is produced with modern petrol and diesel engines, including the 2.0 FSI/110 kW petrol engine and the 2.0 TDI PD diesel engine with maximum output of 103 kW, a revolutionary DSG gearbox, and diesel particle filter (DPF). Also, the fuel-efficient 1.4 MPI/59 kW petrol engine and the 1.9 TDI PD/77 kW turbodiesel are still available. Like the Škoda Fabia, the Škoda Octavia is also offered in a sport-car version (the RS) with 2.0 TFSI or 2.0 TDI engine.

Škoda Octavia once again strengthened its position in the Company's production range. A total of 200,650 vehicles were produced, which is 11.3% more than in 2005. Production is centred in Mladá Boleslav and Vrchlabí. Vehicles are also assembled in India, Ukraine, and Bosnia and Herzegovina.





Škoda Superb

The Škoda Superb is produced in one body version: the limousine. This model is offered with modern petrol and diesel engine options. The 2.8 30V petrol engine has a maximum output of 142 kW, while the 2.5 TDI diesel generates up to 120 kW. For both engines, an automatic five-speed Tiptronic gearbox is available as an option. The Tiptronic gearbox allows the driver to shift gears directly.

The prestigious Škoda Superb line held a stable position. 20,403 vehicles were produced in 2006. The production base was the Kvasiny plant. Škoda Superbs are also assembled from kits at all foreign plants (India, Ukraine, Bosnia and Herzegovina, and Kazakhstan).

Škoda Roomster

The Škoda Roomster is produced in a specific body version typical for vehicles in the MPV category. A new version, the Scout, was added to the range of Škoda Roomster vehicles in October 2006.

Three petrol and three diesel engine options are offered, ranging in output from 51 kW (70 hp) to 77 kW (105 hp).

The new Škoda Roomster is produced in the Kvasiny plant. Production is being ramped up as quickly as possible, to meet market demands. The total number of vehicles produced in 2006 was 25,055.

Higher volumes and expansion of the range of models were achieved in our foreign assembly projects. In Aurangabad, India, 12,599 vehicles were produced (+45.7% over 2005), in Solomonovo, Ukraine, production reached 18,866 vehicles (+88.0% over 2005), the plant in Sarajevo, Bosnia and Herzegovina assembled 2,164 vehicles (-1.9% compared to 2005), while 1,196 vehicles rolled off the assembly line in Kazakhstan (+138.7% over 2005).

Production of Engines and Gearboxes

2006 witnessed the production of a total of 282,564 three-cylinder 1.2-litre engines (-6.8% from 2005). Of this volume, 61.2% were supplied to other Volkswagen Group companies.

Production of MQ 200 gearboxes increased. Total production volume in 2006 reached 457,314 units, which is 12.3% higher than in the previous year, and 44.6% of these gearboxes were supplied to other Volkswagen Group companies.

Car Production

	2004	2005	2006	2006/2005
Fabia	124,464	115,667	121,506	5.0%
Fabia Combi	97,103	94,091	106,112	12.8%
Fabia Praktik	1,072	1,174	1,064	(9.4%)
Fabia Sedan	17,263	15,232	12,237	(19.7%)
Fabia Successor	-	-	196	-
Fabia total	239,902	226,164	241,115	6.6%
Roomster	-	-	25,055	-
Octavia Tour	70,734	48,131	53,631	11.4%
Octavia Combi Tour	51,544	18,188	15,493	(14.8%)
Octavia	55,126	94,718	99,840	5.4%
Octavia Combi	3,663	85,491	100,810	17.9%
Octavia total	181,067	246,528	269,774	9.4%
Superb	22,899	21,435	20,403	(4.8%)
Total	443,868	494,127	556,347	12.6%

Quality



Measuring vehicle body part dimensions on digital measuring device

The quality management system is an integral part of all processes from product development to sales and after-sale service. Customer requirements concerning vehicle quality, workmanship, and problem-free functionality are taken into account during testing, trial runs, and audits in all phases of production. All parts that go into Škoda brand vehicles are subjected to extreme conditions during testing, both in the Group's manufacturing plants and by their suppliers.

The quality management system is a key part of the integrated management system at the parent company, Škoda Auto, and is subjected to audit for compliance with the international ISO 9001:2000 standard. In autumn 2006, TÜV NORD carried out the second audit of this system. The result was renewal of the certificate granted in 2004, which documents that the Company has introduced and uses a quality management system in the areas of development, production, sales, and service and that said system complies with the above mentioned ISO standard. Compliance with the standard's requirements guarantees for customers that each and every Škoda vehicle and each and every genuine part is identical to the approved type and that it satisfies all regulations valid not only in the Czech Republic, but abroad as well. Quality management, both at Indian production plant and the other partner plants, also comply with the standard.

The Company keeps in direct contact with customers through business partners and authorised service centres. The first-class care that customers receive at these locations is the key to their satisfaction. In order to monitor the quality of service check-ups and repairs, and the overall quality of service centres, anonymous "shop tests" are conducted in contractual service centres using a customer vehicle. Another marketing tool used to assess service quality is dealer image analysis. Customers are surveyed to find out their opinions on the quality of service and behaviour of personnel at Škoda dealerships and service centres. The results of the research indicate that customer satisfaction is growing. While in 1997, 74% of customers surveyed were satisfied with the quality of service centre and dealership services, in 2006 the number was over 82%.

Based on the results of these analyses, new measures are implemented to achieve top quality. The effectiveness of the measures taken to-date is being confirmed by growth in the brand's popularity and improvement of its image in both foreign and domestic markets.

Sales and Marketing

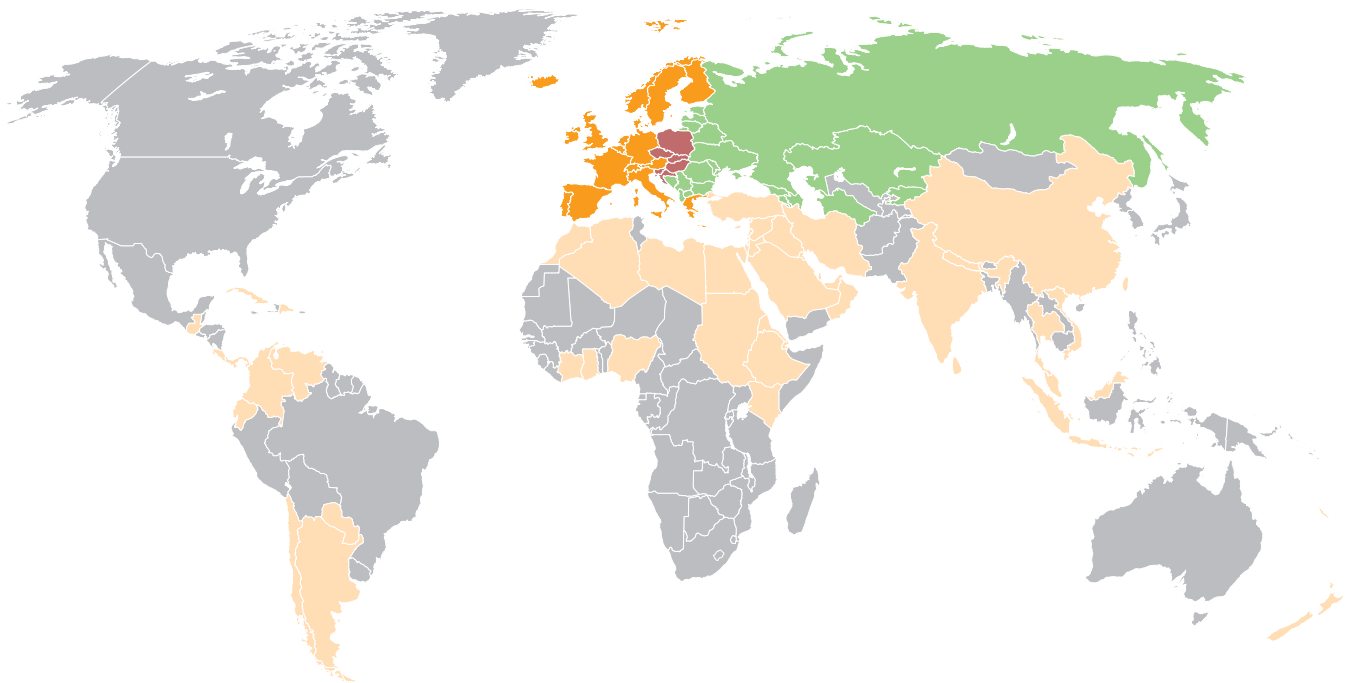
Sales of Vehicles

Škoda Auto Group operates today in more than 90 markets all over the world. Despite flat markets in Central Europe, the Group delivered a total of 549,667 vehicles to customers in 2006, exceeding half a million vehicles sold for the first time in the long history. This result represents a growth of 11.7%.

Vehicle Sales by Region

In 2006, Škoda Auto Group again achieved new sales records in more than 30 markets, among them Germany, United Kingdom, Spain, Romania and Ukraine.

Škoda Auto Group Sales Regions



- Central Europe
- Western Europe
- Eastern Europe
- Overseas/Asia

Czech Republic

The overall passenger car market in the Czech Republic contracted in comparison with 2005, confirming the ongoing declining trend. This decline, however, was offset by rapid expansion of the overall market for light commercial vehicles. Group maintained its vehicle sales volume in 2006 and retained its position of domestic market leader in both the passenger car and light commercial vehicle segments.

Central Europe

Despite overall flat markets in Central Europe, the Group maintained its position as the number-one carmaker in this region. In Poland, the brand's second largest market in this region, 28,783 vehicles were sold (up 4.1% from 2005), which corresponds to a market share of 12.0%. With this market share the Group continues to be the market leader in Poland. In Slovakia, the Group grew sales by 3.0% (21,380 vehicles), and remained the market leader by a wide margin.

Eastern Europe

The highest growth in sales, in relative terms, was achieved by the Group in Eastern Europe. A total of 70,986 vehicles were delivered in the region, for a year-on-year increase of 52.0%. One of the key markets in the region is Russia, where we succeeded in doubling unit sales to 14,835. In Romania, the strongest market, 20,153 vehicles were sold (+37.8% compared to the previous year) and 19,007 new Škoda vehicles found owners in Ukraine (+64.2% year-on-year). The positive trend established in 2005 continued in other Eastern European countries as well, such as Latvia (2,472 vehicles, +37.9%), Lithuania (2,003 vehicles, +52.3%) and Bulgaria (3,261 vehicles, +28.2%).

Western Europe

In its strongest market, Group grew its market share to 2.1% in 2006 (2005 market share was 1.9%). A total of 301,343 vehicles were delivered to customers in the region (+9.1% year-on-year).

Over 10% sales growth was recorded in the following Western European countries: Germany, Spain, Belgium, Greece, Switzerland, Finland, Luxembourg. The most vehicles were sold in Germany – 103,931 vehicles total, up 15.3% over 2005. Market share in terms of newly registered vehicles grew to 3.4% (2005: 3.1%) and Škoda became the number-three imported car brand. Despite unfavourable development of the overall market in the UK, the Group grew sales here by 1.3% and delivered to customers a total of 38,801 vehicles (2006 market share was 1.7%). 24,869 vehicles were sold in Spain – an increase of 14.6%. The largest market shares in Western Europe were achieved in Denmark (6.6%) and Austria (5.5%).

Overseas/Asia

The huge growth potential of the Overseas/Asia market was reflected in the Group's sales figures here. Deliveries to this region in the year in question totalled 36,541 vehicles, which is up 21.1% over the previous year. India, again the largest market, saw 12,105 vehicles delivered to customers for a year-on-year increase of 35.2%. Other important markets were Turkey (5,725 vehicles compared to 7,261 in 2005), Egypt (3,683 vehicles compared to 2,328 in 2005), and Israel (3,518 vehicles compared to 2,900 in 2005).



Vehicles Sales by Model Line

In 2006, the Group sold 243,982 Škoda Fabias (up 3.1%). In the model mix, 123,170 vehicles were Škoda Fabia hatchbacks (+3.1% compared to the previous year), 107,906 units were Škoda Fabia Combis (+7.1% relative to the previous year; Praktik version included) and 12,906 units were Škoda Fabia Sedans (-21.5% relative to the previous year).

Sales of the new Škoda Roomster model line commenced in June 2006. This model was rolled out to Central, Western & Eastern European markets in a phased launch and by the end of the year a total of 14,422 customers in 37 countries had bought Roomsters.



For the first time in 2006, the Škoda Octavia became the best-selling model line (including the Škoda Octavia Tour). Deliveries to customers totalled 270,274 vehicles, i.e. up 15.8% from the previous year. The Škoda Octavia Tour was especially popular in Eastern Europe and at a total of 69,323 deliveries to customers it remained at roughly last year's level.

In the Škoda Superb model line, a total of 20,989 vehicles were delivered to customers, a decrease of 5.0% over 2005.

Sales of Genuine Parts and Accessories

Revenues from sales of genuine parts and accessories surpassed 2005's figure by a wide margin. Sales of Škoda original parts totalled CZK 12,522.5 million (+14.4% year-on-year) and sales of Škoda genuine accessories reached CZK 2,279.5 million (+20.8%).

Sales and Service Network

In parallel with the rising volumes of vehicles delivered, the Group developed its network of authorised sales and service partners extending to various world markets. As of the end of 2006, there were a total of 4,091 registered sales and service partners (up 5.5% from 2005). In order to ensure service standards compliance and improve service quality, over 4,400 service employees were trained both in the Czech Republic and abroad.

The construction of 100 new Škoda dealerships confirmed the dynamic growth of the brand's distribution network.

Marketing Communication

The launch of the Group's fourth model line – the Škoda Roomster – opened a new chapter in our marketing communication. The vehicle has a new target audience for us: people for whom the vehicle is not only a means of transportation, but also a way to express their personal style. This required a decidedly uncommon communications strategy. The comprehensive campaign based on the claim: "Find your own room" emphasises the principal features of the Škoda Roomster: styling, roominess, and perspective – not only in terms of functionality, but emotions and attitudes toward life as well.

At a global dealers conference that took place in June 2006 in Italy, the Škoda Roomster was presented to over 2,500 dealers from 74 countries. For the first time in history, a new model was launched via a Europe-wide Roadshow which took place from July to October 2006 and covered 11 countries.

Vehicle Customer Deliveries by Region

	2004	2005	2006	2006/2005
Czech Republic	64,676	65,166	65,171	0.0%
Central Europe, excluding Czech Republic	87,139	73,855	75,626	2.4%
Eastern Europe	31,564	46,692	70,986	52.0%
Western Europe	240,672	276,216	301,343	9.1%
Overseas and Asia	27,624	30,182	36,541	21.1%
Total	451,675	492,111	549,667	11.7%

Vehicle Customer Deliveries by Model

	2004	2005	2006	2006/2005
Fabia	132,520	119,485	123,170	3.1%
Fabia Combi	97,012	99,637	106,694	7.1%
Fabia Sedan	17,036	16,451	12,906	(21.5%)
Fabia Praktik	1,032	1,125	1,212	7.7%
Fabia total	247,600	236,698	243,982	3.1%
Roomster	-	-	14,422	-
Octavia Tour	82,259	48,999	53,783	9.8%
Octavia Combi Tour	58,427	20,802	15,540	(25.3%)
Octavia	39,734	90,042	100,584	11.7%
Octavia Combi	1,263	73,479	100,367	36.6%
Octavia total	181,683	233,322	270,274	15.8%
Superb	22,392	22,091	20,989	(5.0%)
Total	451,675	492,111	549,667	11.7%

Vehicle Customer Deliveries in Selected Countries

	2004	2005	2006	2006/2005
Czech Republic	64,676	65,166	65,171	0.0%
Slovakia	23,150	20,764	21,380	3.0%
Poland	39,693	27,649	28,783	4.1%
Hungary	17,350	18,130	16,892	(6.8%)
Central Europe	151,815	139,021	140,797	1.3%
Germany	78,051	90,103	103,931	15.3%
France	13,013	15,508	16,754	8.0%
United Kingdom	34,236	38,294	38,801	1.3%
Italy	20,478	19,605	16,515	(15.8%)
Spain	16,605	21,700	24,869	14.6%
Austria	15,601	16,301	16,943	3.9%
Denmark	8,362	9,377	10,166	8.4%
Sweden	8,763	10,967	11,678	6.5%
Western Europe	240,672	276,216	301,343	9.1%

Market Share (%)*

	2004	2005	2006	2006/2005**
Czech Republic	48.5	51.0	52.4	1.4
Slovakia	40.1	36.2	36.0	(0.2)
Poland	12.5	11.7	12.0	0.3
Hungary	8.2	9.0	8.9	(0.1)
Central Europe	17.8	18.6	18.9	0.3
Germany	2.4	2.7	3.0	0.3
France	0.7	0.8	0.8	0.0
United Kingdom	1.3	1.6	1.7	0.1
Italy	0.9	0.9	0.7	(0.2)
Spain	1.1	1.5	1.7	0.2
Austria	5.0	5.3	5.5	0.2
Denmark	6.9	6.3	6.6	0.3
Sweden	3.3	4.0	4.1	0.1
Western Europe	1.7	1.9	2.1	0.2

* Based on deliveries to customers.

** In percentage points.



MORE ROOM



FOR LIFE

Human beings are always at the centre of our attention. That's why minimising our environmental impact is a key and long-term tenet of our business. Similarly, we endeavor to do our best to satisfy both customers and employees. And our efforts have paid off – this year our Company was declared Employer of the Year for the third time.



Human Resources

Employment

The core work force of the parent company, Škoda Auto, at year end 2006 totalled 23,034 persons (+480 persons, or +2.1%). The biggest growth was in production personnel (+6.9%) in conjunction with increased production of the Škoda Octavia model line and commencement of production of the new Škoda Roomster. To meet the brisk demand for the new model, the Kvasiny plant added a third shift as of October 2006. Temporary workers at year end 2006 totalled 3,704 persons (+244 persons, or +7.1% year-on-year).

The average employee age was 37.9 years; the average duration of employment at the Company was 11.8 years. 2,340 new employees were hired in 2006.

As of 31 December 2006, the Company's subsidiaries employed a total of 942 employees (+214 persons, +29.4% year-on-year). The work force increase was related primarily to expanded production and deployment of temporary workers at SAIPL.

Social Aspects

Relations between the Company and its employees are governed by the Labour Code and the Company's Employment Code. Employer-employee relations, work safety, and the structure of work hours are stipulated by the Collective Agreement between Company management and the labour organisations, which is valid until 31 March 2008. In June 2006, a dialogue was opened between Company management and labour representatives concerning a new compensation system designed to provide better incentives to employees and define the rules of their compensation in a comprehensible and transparent fashion.

The Company provides its employees a number of benefits. Some of the benefits – e.g. subsidised meals, Supplemental Pension Insurance contribution, and contributions toward recreational sojourns – are offered to employees without any further restrictions. All employees are also eligible to receive healthcare benefits such as, e.g., flu vaccine shots, vitamin C, and the option of attending preventive programmes at the Company's own physical therapy centre. Other benefits include, first and

foremost, support to help employees find suitable accommodation – in the form of an interest-free loan – and good deals on new and used cars. Reconditioning and rehabilitation sojourns in a spa setting are organised for employees from selected work areas.

In 2006, the Company opened two protected work areas in the Mladá Boleslav plant, creating 65 job positions for employees whose tasks include assembling small parts and packaging vehicle assembly parts for shipping. These shops employ people with various handicaps and others who are unable to continue in their previous jobs.

For the second year in a row, the Company was declared Employer of the Year in a competition. A jury of experts assessed, e.g. how the Company deals with its employees, investments in employee training and development, and the level of employee benefits provided. The jury also expressed appreciation for a human resources project relating to the hiring of employees for the Kvasiny plant.

Personal Development and Continuing Education

The Company offers university students and graduates the opportunity to participate in development programmes. Students can participate in the "JUST Pool" programme, which aims to develop talented individuals with specialised skills and/or leadership potential for future roles in the Company. In 2006, 22 students participated in the programme. For recent university graduates, the Company offers a one-year adaptation and development programme, entitled "Trainee-programme", during which participants are integrated into the work process and gain their first practical experience. In 2006, 24 university graduates entered the Trainee-programme.

In addition to the development programmes mentioned above, the Company is preparing a number of other programmes for employees. The Coaching function is in charge of development programmes for all employee groups from manufacturing to executive positions.

In accordance with the corporate philosophy, the Company endeavours to train and develop its people and fill management positions primarily from within. Employees exhibiting the defined management potential are trained and developed pursuant to a structured programme focused on developing their professional and personal skills and supported through participation in international projects. Thanks to the global reach of the Volkswagen Group, managers are involved in a number of international projects (e.g., in India, China, and Russia).

The Company pays special attention to training lower and middle managers. In 2006, the Technical Preparation Group trained supervisor and coordinators to support and facilitate the process of putting the new Škoda Roomster and the Škoda Fabia successor vehicle into production. The technical and specialist preparation group prepared key professions to support a smooth transition of the new vehicle from design to production.

The Company also pays considerable attention to broadening and deepening the qualifications of its employees. 2006 saw the continued implementation of E-learning, which aims to improve employees' computer literacy while at the same time increasing the effectiveness of the training process. During the programme's second year, employees completed over 5,000 courses. The Company also lends its long-term support to developing employees' language knowledge and skills, and 2,750 employees attended language courses in 2006.

During 2006 the construction of the Na Karmeli education centre went forward according to plan. As of autumn 2007 the centre will offer modern facilities for the Škoda Auto University and for the company's employee training units.

Education

To meet its human resources needs, the Company educates future specialists in its own in-house educational facilities: the Secondary Vocational School of Mechanical Engineering and the Škoda Auto University.

At the Secondary Vocational School, young people prepare for their future vocation in 4-year study and 3-year apprenticeship programmes focused on mechanical and electrical engineering. 940 students and apprentices were enrolled in 2006.



Also in 2006, the IQ Auto project, in which the Company is an active partner, entered its implementation phase. This project is creating a system for training secondary vocational school teachers so that what students learn meets the current needs of companies in the automotive industry.

The Škoda Auto University, currently in its sixth year, provides education through an Economics and Management study programme ending in a Bachelor's degree. Starting in 2006, a Master's degree programme is also available. A total of 585 students were enrolled in 2006. 157 graduates were awarded Bachelor's degrees, and approximately one half of these found jobs working for the Company or its suppliers. Another nearly one third elected to continue their studies in the Master's degree programme.



Health Management

As an expression of our strong corporate social responsibility, in October 2006 we launched the "Healthy Company" program focused on improving employee health and fighting against diseases of civilisation. Individual measures taken in the programme are focused on support for healthy diets, bolstering the immune system, quitting smoking, and improving conditions in the workplace. In accordance with the newly revamped Integrated Rescue System, the Company put into operation a central first-aid clinic.

The Company places great emphasis on improving work conditions based on the results of measurements of employees' physical duress and ergonomic analyses of individual work areas. One example of our comprehensive approach in this area is the process of preparing work areas for production and assembly of the new Škoda Roomster, which saw a number of ergonomic measures implemented in the body shop and the vehicle assembly area (e.g. strategically placed special palettes and stands to ease parts handling, robotising selected work procedures, optimised tool and jig placement, etc.).

The Company also implemented a number of preventive measures. A Pandemic Plan was drawn up to address the potential danger of bird flu. At Company expense, a total of 5,074 employees were vaccinated against the seasonal flu. Treatment and reconditioning spa sojourns were utilised by a total of 1,364 employees. Average work attendance in 2006 was 96.6%.

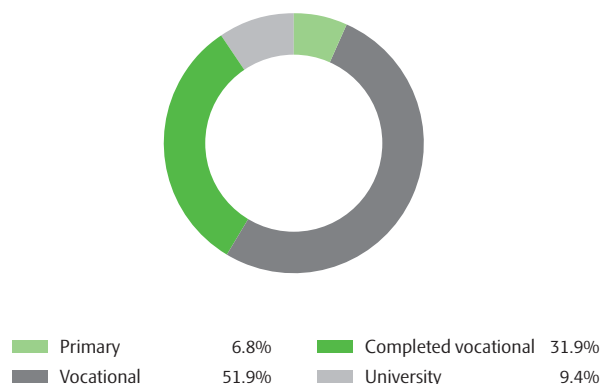
Z.E.B.R.A.

The Z.E.B.R.A. system creates conditions for supporting employee initiatives in areas such as simplifying work processes and improving quality, workflow, occupational safety, etc. In 2006, 9,401 proposals were put forward via this system. The success rate was 72.2%. Total benefits of the implemented proposals were calculated to be CZK 200.1 million.

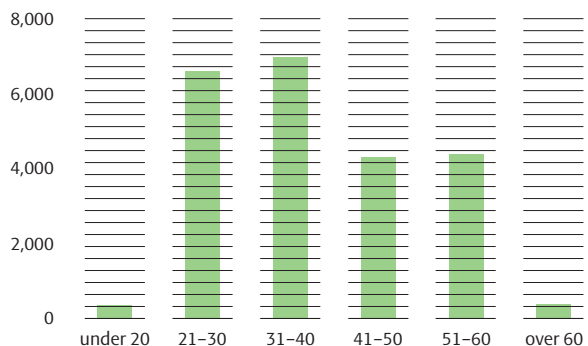
Occupational Safety

Occupational health and safety is a constant, fundamental priority in our business. For a long time now, the Company has had one of the lowest injury rates among all automakers. The injury rate (i.e., number of injuries per million man-hours worked) in 2006 was very close to 3. Factors contributing to the low injury rate include injury prevention activities, including a competition in which the principal manufacturing functions compete with each other to achieve the best results in injury prevention.

Employee education structure (%)



Age structure (permanent workforce)



Sponsorship and Corporate Citizenship



Škoda Auto is engaged in corporate citizenship in all regions of the Czech Republic supporting, in particular, culture and the arts, education, healthcare, and sport.

The pillar of the Company's sponsorship of sport, is support for ice hockey. Since 1992 the Company has provided the official vehicle for the IIHF Ice Hockey World Championship and has been a main sponsor of the Championship since 1993. The Company is also general partner of the Czech Ice Hockey Extra-league and the Czech National Ice Hockey Team. Cycling is another supported sport activity. Since 2004 the Company is one of the principal sponsors of the legendary cycling race, the Tour de France. In 2006, the Company became a partner to the World Cycling Championship. Ever since 1992, the Company has been a General Partner to the Czech Olympic Team. In Motorsport, the Škoda brand continues to be involved in the world championship through support for private teams.

In culture & the arts, the Company is a traditional partner of the Czech Philharmonic Orchestra, the National Theatre, and the International Film Festival for Children and Youth in Zlín.

The Company also focuses its attention on a number of social and charity programmes, and helps people with handicaps in their efforts to improve their lives. The Company maintains long-term partnerships in this area with the Foundation for Cancer Research, the Oncological Care Centre, the Paralympic Committee, and Centrum Paraple (run by the Union of Paraplegics), among others. Another project in the social field is support for "Healthcare Clowns", who visit paediatric wards in hospitals to help little patients overcome fear and anxiety.

The Company contributed to culture and the arts in the Mladá Boleslav region in 2006 by supporting the Municipal Theatre and the Festival of Film Laughs. The latter took place in September at the Škoda Auto Museum. To help develop infrastructure, the Company made contributions toward construction of roads, a car-park, and a bus station. In the education area, the Company provided funding for the renovation of the 4th Primary School and, in sport, it supported the local football club.

In close co-operation with technical universities, the Company is developing project-oriented study programmes and endeavouring to secure and support a graduate profile that is in line with the Company's objectives and interests. 2006 saw the renewal of framework agreements with ČVUT Prague, TU Liberec and ZČU Plzeň and, at the same time, the parties are joint beneficiaries of grants from European Structural Funds – Sectoral Operational Programme Human Resources Development. In addition, the Škoda Auto University is expanding study opportunities in the Mladá Boleslav area.

Organisation and Information Systems



Processes – Organisation

Due to the heavy competition in the automotive industry, improvements in process efficiency and optimising of human resources are constant necessities. Various projects are underway to analyse individual process steps and propose solutions to optimise the processes and make more efficient use of human and financial resources. All the measures taken in the area have one thing in common: to make the Company more competitive.

The basic building block for our ongoing information systems standardisation process is a Group-wide reference process map system which assesses, at a global level, the most efficient practices in process modelling among the individual brands. This tool has made it possible to create an environment for communication between process modelling and IT services. Implementing IT support in accordance with the needs of internal customers remains a priority.

SAP Platform

The Company places a lot of emphasis on efficiency of economic processes. Their smooth functioning makes it possible to utilise resources effectively and is a fundamental attribute of a healthy company. For a number of years now, the Company has relied on the SAP platform to provide systemic support for these processes.

Dynamic growth of the world economy puts high demands on flexible and qualified system support in the area of economic processes. Thanks to the long-term efforts and high competency of our SAP team, we obtained the globally recognised SAP Customer Competence Centre (SAP CCC) certificate. The Company is the second location within the Volkswagen Group to achieve this.

In the process of developing the new generation Škoda Superb, the SAP platform is being used for the first time for one of the key vehicle development and production systems – Bill of Material (BOM).

Utilisation of New Information Technologies in the Product Development Process

By launching Phase One of the “Digital Factory” project, the Company entered the era of virtual production planning. Cutting-edge 3D technology accelerates and increases the efficiency of production development and preparation processes.

Optimising of IT Solutions and Services

The year 2006 was characterised by the ongoing reorganisation of IT services. The motto of the reorganisation is the transition from “Do things right” to “Do the right things”, i.e. to strictly reorient ourselves from technology-driven IT services to IT services driven by customer needs. The reorganisation process went forward by gradually deepening the implementation of IT processes according to the ITIL (IT Infrastructure Library) model. In accordance with global trends, an IT Governance function was established and tasked with managing the provision of IT services exclusively in line with the Company’s commercial objectives. The IT organisation is actively involved in developing strategic, Group-wide “Master Construction Plans” for further development of system support for key corporate processes with an outlook until 2015.

The Information Security Management System (ISMS) process continues to be developed and deals with systematic implementation of IT security measures. The strategic goal of ISMS is to prepare the IT organisation to be certified for compliance with the BS 17799 international standard.

The Environment

Škoda Auto has a long-term programme of minimising the impact of its operations on the environment. In order to protect the environment in the vehicle development and production processes, measures are taken mainly in the following areas: emissions and noise minimising, prevention of soil and water pollution, use of environmentally friendly materials, recycling and waste utilisation, use of production techniques that are easy on the environment and efficient in their use of natural resources, and products that are designed to conserve non-renewable natural resources. Most engines used in Škoda brand vehicles comply with the strict emission limits of EU4.

Although vehicle production volume approximately tripled from 1991 to 2006, this was accomplished with no absolute increase in environmental burden. On the contrary, some indicators, such as air emissions and water consumption, have fallen.

In protecting the environment the Company proceeds in accordance with applicable legislation and complies with the conditions set forth in decisions made by the appropriate authorities, such as integrated permits issued by regional government offices. This is demonstrated by the renewal of our ISO 14001:2004 (Environmental Management System) certification and by the fact, in the past five years, that no sanctions have been imposed on the Company nor has it been subjected to any administrative proceedings for correction of environment-related shortcomings or non-compliance.

The Company obtained an integrated permit for the operation of iron and aluminium foundries in Mladá Boleslav. This move assured that all Company facilities subject to the Act on Integrated Prevention have obtained the necessary permits in advance.

Air Protection

In 2006, the Company operated 314 sources of air pollution, all of which were in compliance with statutory emission limits. The largest sources of emissions are the paint shops and heat plants, which together generate 94% of the Company's total air emissions.

In the past few years, the Company has succeeded in substantially reducing air emissions not only per vehicle produced (see graph), but in absolute terms as well. From 1997 to 2006, thanks to the utilisation of modern technologies in production, emissions have been cut by over 58%. An expansion of the capacity of our modern paint shops in Mladá Boleslav and Kvasiny, which use mostly water-based paints, made it possible to shut down all paint shops based on synthetic paint systems. Upgrades of our heat plant and foundry operations in Mladá Boleslav made a considerable contribution toward reducing emissions of sulphur dioxide, nitrogen dioxide, particulate pollution, and carbon monoxide.

Air emissions per vehicle produced, over time (kg)



Soil and Groundwater Protection, Water Management

The Company has fully secured its operations to prevent environmental damage and is successfully cleaning up legacy damage caused by insensitive industrial production techniques used before the Company joined the Volkswagen Group.

By the end of 2006, over 80% of environmental damage requiring clean-up had been resolved at a cost of CZK 515 million. No accidents requiring clean-up work occurred in 2006. During the year, the Company completed clean-up of legacy environmental burdens at the Kvasiny and Vrchlabí plants, and extensive clean-up work continued at the Mladá Boleslav plant to remove contaminated floors and underlying sediments in the older manufacturing halls and to lay new floors that do not allow hazardous materials to seep through into the soil. In the water management area, the Company built a back-up water supply system for the Kvasiny plant based on groundwater resources and secured new lots and car-parks to prevent any possible water contamination from petroleum-based products.

One of the Company's most fundamental tasks is to keep water consumption to the bare minimum and return water to the ecosystem while burdening the environment as little as possible. The success of the measures we have taken to fulfil this task are demonstrated by water consumption and wastewater discharge figures per vehicle produced, as well as by the fact that, thanks to newly implemented technologies, the purity of the wastewater we discharge is substantially higher than the prescribed limits.

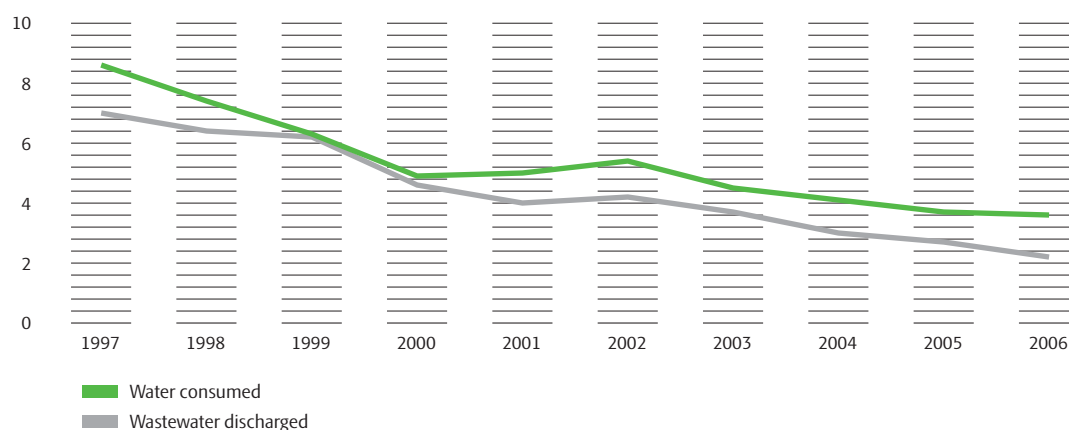
Waste Management

A number of waste-reduction measures have been implemented in our development and production processes. Right from the development stages, vehicles are engineered to maximise the use of recyclable materials in production. With the aim of minimising negative impacts of waste on the environment, all waste is sorted and most of it is recycled. Of the total amount of waste generated in 2006, only 12% ended up in landfills or incinerators. Most of the waste we produce, including metals, is put to further use. Such waste materials include glass, paper, waste oils, solvents, cables, toner cartridges, foundry sand, plastics,

and plastic film. Special attention in this area is paid to recovering and reusing materials from non-returnable containers.

The effectiveness of the measures taken can be documented by figures showing the amount of waste generated (not including metals) per vehicle produced. In 1997 this indicator was 84 kg/vehicle, while by 2006 it had fallen to 41 kg/vehicle.

Water consumed and wastewater discharged per vehicle produced (m³)



Waste generated (kg/vehicle)



Capital Expenditure

In 2006, a total of CZK 193 million was invested in preventive measures, construction projects, and upgrades. Environment-related capital expenditures over the past 16 years total CZK 9.5 billion.

Environmental Investments, 1991–2006

Wastewater treatment	CZK 892 million
Paint shop measures and new paint shops	CZK 1,637 million
Air protection, energy	CZK 5,644 million
Building insulation	CZK 337 million
Protection of soil and groundwater	CZK 636 million
Protection of work environment	CZK 357 million
Total	CZK 9,503 million



MORE ROOM



FOR THE FUTURE

Life around us is in full swing and constantly changing. And what direction you will take in the next few years – that's up to you. As for us, we have a clear idea of what our future holds. After all, one thing is certain: motor vehicles will continue to be a necessary part of human life in the years to come. And, in our case, those vehicles will bear the Škoda brand.

SHORT-TERM OUTLOOK



Model of the new Technology Centre

Czech and World Economy

Dynamic growth of the Czech economy is set to continue in 2007. However, the rate of growth is expected to slow slightly (real growth of around 5.0%). GDP is to be driven in particular by household consumption and capital spending. The inflation rate will likely grow to 3.1%. Employment is expected to grow, with a corresponding fall in unemployment. The Czech currency is anticipated to strengthen relative to both the Euro and the U.S. Dollar.

Automotive Market

Czech Republic

In the Czech Republic, the year 2007 is expected to bring an expansion of the overall passenger car market, which could see its volume increase by up to 8.0%.

Central Europe

Compared to 2006, demand for new passenger cars in markets in Central Europe is expected to remain flat. Positive movement can be anticipated in the Polish (year-on-year growth of 2.0%) market, while the Hungarian market is forecasted to decline substantially (-9.0%).

Eastern Europe

The current forecast for the overall markets for new passenger cars in Eastern Europe is one of growth in 2007. The most dynamic market will be Russia (+11.0%).

Western Europe

Next year, overall demand for new passenger cars in markets in Western Europe is likely to fall slightly (-1.0%) compared to 2006, primarily as a result of anticipated declines in the German (-2.6%) and British (-1.5%) markets. On the other hand, the French market is expected to improve (+4.5%).

Asia

Both the Indian and Chinese new passenger car markets are expected to continue to grow in 2007.

Financial Situation

Continual improvement of all corporate processes together with growing sales will create potential for continued positive development in the financial situation. Thanks to improved operating and financial effectiveness and savings on production costs combined with rising market share in all major sales regions, the Group anticipates that it will achieve its economic objectives.

The Group forecasts that Tranche 2 of the bond issue (CZK 3 billion) will be repaid in October 2007. The retirement of this debt will have a positive impact on the Group's financial situation, especially in terms of increased liquidity.

Development

In the next two years, we will continue to upgrade the existing Development Centre in Česana and build a new technology centre on the banks of the Jizera River (groundbreaking on the project is to take place in late 2006). Among other things, the new technology centre will have space dedicated to developing vehicle electronics and electrical wiring, development of undercarriages and aggregates, acoustical and noise testing, etc. Construction of the building should be completed by the end of 2008, and the technology centre itself is to be put into operation about 6 months later, following installation of all the new technologies. The new centre will also carry forward development of a new engine powered by an alternative fuel (petrol-alcohol mixture). Other activities will focus on development of vehicles for markets with high growth potential.

Production and Logistics

The principal production task for 2007 will be to put into production all chassis versions of the Škoda Fabia successor. January 2007 will see the beginning of series production of the Škoda Octavia 4x4 Scout in Vrchlabí. In accordance with Company strategy, additional international projects will be developed. In the first half of 2007, a factory in Shanghai, China will begin producing the Škoda Octavia under license. In co-operation with the Volkswagen Group, a new plant is being built in Kaluga, Russia, and it will ship its first Škoda vehicle in the autumn of 2007. In India, the Škoda Fabia is to enter production in 2007.

Sales and Marketing

In 2007, the Škoda Auto Group's demanding targets will be met through support for and development of existing markets, expansion of assembly capacity in selected countries, and the opening of new markets. After more than one half million vehicles were sold in 2006, the Škoda Auto Group's policy of expansion will be further developed, not only in terms of new markets, but new models as well. One of the pillars of the sales effort will be the Škoda Fabia successor, which will be unveiled to the public in March 2007 at the Geneva Motor Show. Another vehicle to be launched in 2007 will be a derivative of the popular Škoda Roomster – the Škoda Roomster Scout. In addition to all the advantages of the Škoda Roomster, this vehicle will offer increased robustness and uniqueness. The emotional "trump card", however, will be the Škoda Octavia Scout unveiled in Paris in September 2006, the launch of which is planned for March 2007.

Human Resources

Human resources efforts in 2007 will focus on continuing to recruit, develop, and retain highly motivated employees. The objective is to secure personnel for the production programme that is set to expand further during the year. Changes to the payroll system are in preparation that will place more weight on employee performance and bring clear, fair remuneration. In the autumn of 2007, the Na Karmeli education center will open its doors offering modern facilities for the Škoda Auto University as well as for employee training units.

Investment Strategy

Investments (i.e., capital expenditures) in 2007 will revolve around the development and production of the Škoda Superb successor vehicle and the commencement of series production of the Škoda Fabia's successor. In addition, CZK 254 million is to be invested in upgrading and expanding the technology and development centre in Česana, including equipping it with high-tech technologies. This investment will also include upgrades of trial tracks and safety-increasing improvements to the testing compound in Úhelnice, not far from Mladá Boleslav. Significant funding will also be brought to bear on a social cause – the construction of the Na Karmeli multi-function educational centre.



FINANCIAL SECTION

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

PricewaterhouseCoopers Audit, s.r.o.
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Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

Independent Auditors' 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 2006 which are included in this Annual Report on pages 59 to 95 and with the separate financial statements for the year ended 31 December 2006 which are included in this Annual Report of the Company on pages 97 to 129 (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 2006 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 2006 (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.

9 February 2007



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Pavel Kulhavý
Auditor, Licence No. 1538

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS



PricewaterhouseCoopers Audit, s.r.o.

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Independent Auditors' 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 (together, the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, 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 (the "consolidated financial statements"). Details of the Group are disclosed in note 1 to these consolidated financial statements.

Board of Directors' Responsibility for the Consolidated 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 consolidated 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.

Auditors' 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated 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 accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

31 January 2007

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	2006	2005
Sales	18	203,659	187,382
Cost of goods sold		175,636	163,738
Gross profit		28,023	23,644
Distribution expenses		11,903	10,611
Administrative expenses		3,587	3,676
Other operating income	19	4,747	4,027
Other operating expenses	20	2,678	2,524
Operating profit		14,602	10,860
Financial income	21	644	482
Financial expenses	21	1,048	1,269
Financial result		(404)	(787)
Share on profit of associates		-	-
Profit before income tax		14,198	10,073
Income tax expense/(income)	22	3,136	2,180
– current		3,638	2,320
– deferred		(502)	(140)
Profit for the year		11,062	7,893
Attributable to:			
Equity holder of the Company		11,051	7,879
Minority interests		11	14
		11,062	7,893

The notes on pages 63 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED 31.12.2006

(CZK million)

ASSETS	Note	31.12.2006	31.12.2005
Intangible assets	3	13,351	13,210
Property, plant and equipment	4	39,809	41,466
Investment in associates	5	187	-
Other receivables and financial assets	6	387	374
Deferred tax assets	15	336	374
Non-current assets		54,070	55,424
Inventories	7	12,248	12,270
Trade receivables	8	5,497	6,224
Current tax receivables		449	231
Other receivables and financial assets	6	28,436	14,430
Cash	9	4,512	1,176
Current assets		51,142	34,331
TOTAL ASSETS		105,212	89,755
LIABILITIES	Note	31.12.2006	31.12.2005
Share capital	10	16,709	16,709
Share premium		1,578	1,578
Reserves	11	39,961	28,395
Equity without minority interests		58,248	46,682
Minority interests		73	75
Equity		58,321	46,757
Non-current financial liabilities	12	1,995	4,990
Other non-current liabilities	14	834	631
Deferred tax liabilities	15	2,528	2,837
Non-current tax payables		398	268
Non-current provisions	16	6,542	4,111
Non-current liabilities		12,297	12,837
Current financial liabilities	12	5,331	2,475
Trade payables	13	19,168	18,855
Other current liabilities	14	3,153	2,328
Current tax payables		1,945	1,056
Current provisions	16	4,997	5,447
Current liabilities		34,594	30,161
TOTAL LIABILITIES		105,212	89,755

The notes on pages 63 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	Share capital	Share premium	Reserves			Equity attributable to shareholder of SKODA AUTO a.s.	Minority interests	Total equity
				Retained earnings	Currency translation reserve	Reserves for cash flow hedges*			
Balance at 1.1.2005		16,709	1,578	25,524	(17)	42	43,836	87	43,923
Profit for the year		-	-	7,879	-	-	7,879	14	7,893
Dividends paid		-	-	(4,454)	-	-	(4,454)	(26)	(4,480)
Exchange differences		-	-	(30)	3	-	(27)	-	(27)
Financial derivatives**	11	-	-	-	-	(552)	(552)	-	(552)
Balance at 31.12.2005		16,709	1,578	28,919	(14)	(510)	46,682	75	46,757
Balance at 1.1.2006		16,709	1,578	28,919	(14)	(510)	46,682	75	46,757
Profit for the year		-	-	11,051	-	-	11,051	11	11,062
Dividends paid		-	-	-	-	-	-	(13)	(13)
Exchange differences		-	-	(9)	(64)	-	(73)	-	(73)
Financial derivatives**	11	-	-	-	-	588	588	-	588
Balance at 31.12.2006		16,709	1,578	39,961	(78)	78	58,248	73	58,321

* Net of deferred tax from financial derivatives.

** Explanatory notes on cash flow hedges are presented in Note 1.10.

The notes on pages 63 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	2006	2005
Cash and cash equivalents at 1.1.	17	12,376	15,073
Profit before tax		14,198	10,073
Depreciation and impairment of non-current assets	3, 4	12,614	12,292
Change in provisions	16	1,981	2,007
Loss/(Gain) on disposal of non-current assets		28	(50)
Net interest expense	21	261	787
Change in inventories		22	1,482
Change in receivables		325	1,437
Change in liabilities		896	(1,741)
Income tax paid from operating activities	22	(2,829)	(2,123)
Interest paid		(709)	(1,085)
Interest received		633	471
Cash flows from operating activities		27,420	23,550
Purchases of non-current assets		(8,256)	(8,843)
Additions to capitalised development costs	3	(2,710)	(2,862)
Proceeds from sale of financial investments		(188)	-
Proceeds from sale of non-current assets		64	139
Cash flows from investing activities		(11,090)	(11,566)
Cash flows netto (operating and investing activities)		16,330	11,984
Dividends paid		(13)	(4,480)
Change in liabilities from factoring		533	(4,564)
Repayment of bonds	12	0	(5,000)
Repayment of other borrowings	12	(676)	(626)
Cash flows from financing activities		(156)	(14,670)
Net change in cash and cash equivalents		16,174	(2,686)
Exchange losses on cash and cash equivalents		(67)	(11)
Cash and cash equivalents at 31.12.	17	28,483	12,376

The notes on pages 63 to 95 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2006

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

ŠKODA AUTO a.s.
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;
- Sale 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.

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 associates (together "the Group") for the year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") as at 31 December 2006.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following the Accounting Regulatory Committee decision of October 2004, the Commission adopted the Regulation 2086/2004 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005. As of 31 December 2006 the Council of the European Union has not endorsed following standards and interpretations: IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12.

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 annual report in accordance with IFRS.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant or do not have material impact to the Group's operations:

IAS 19 – Amendment – Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective date 1 January 2006)
IAS 21 – Amendment – Net Investment in a Foreign Operation (effective date 1 January 2006)
IAS 39 – Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective date 1 January 2006)
IAS 39 – Amendment – The Fair Value Option (effective date 1 January 2006)
IAS 39 and IFRS 4 – Amendment – Financial Guarantee Contracts (effective date 1 January 2006)
IFRS 1 – Amendment – First-time Adoption of International Financial Reporting Standards (effective date 1 January 2006)
IFRS 6 – Exploration for and Evaluation of Mineral Resources (effective date 1 January 2006)
IFRIC 4 – Determining whether an Arrangement contains a Lease (effective date 1 January 2006)
IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date 1 January 2006)
IFRIC 6 – Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment (effective date 1 December 2005)

The following standards, amendments and interpretations to existing standards have been published but are not yet effective, that the Group has not early adopted or are not relevant for the Group's operations:

IAS 1 – Amendment – Presentation of Financial Statements: Capital Disclosures (effective date 1 January 2007)
IFRS 7 – Financial Instruments: Disclosures (effective date 1 January 2007)
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)
IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective date 1 March 2007)
IFRIC 12 – Service Concession Arrangements (effective date 1 January 2008)
IFRS 8 – Operating Segments (effective date 1 January 2009)

The above standards are not expected to have material impact on the current recognition and measurement policies, but in particular IFRS 7, IFRS 8 and the amendment of IAS 1 will introduce certain new disclosure requirements.

1.2 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, 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below. Amounts in the consolidated financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

1.3 Details of the Group

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

See Company information note 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 ŠKODA AUTO a.s. 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. OOO VOLKSWAGEN RUS. is a significant associate of ŠKODA AUTO a.s.

1.4 Consolidation principles

The subsidiaries are consolidated by the full-scope consolidation method. Assets and liabilities of the companies of the Group included in the consolidated financial statements 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 an 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 acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of 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 associates are accounted for using the equity accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' 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 associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.5 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 particular country. The particular 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	2006	2005
Poland	PLN	7.177	7.514
India	INR	0.472	0.546
Slovakia	SKK	0.799	0.766
Germany	EUR	27.495	29.002
Russia	RUR	0.793	0.855

1.6 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 technological feasibility, and costs can be measured reliably. These development costs are valued at cost 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 costs include all direct costs as well as an appropriate portion of development-related overheads.

The costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components, generally between 5–10 years. 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.

Government grants related to the purchase of intangible assets are deducted in order to arrive at the carrying amount of the relevant intangible asset.

1.7 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 items.

All repairs and maintenance costs, as well as interest paid, 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

Government grants related to purchase of tangible assets are deducted in order to arrive at the carrying amount of the relevant tangible asset.

1.8 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 flows (cash-generating units).

1.9 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; 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. 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 6 and Note 8).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the years presented in these consolidated financial statements the Group did not hold any investments in this category.

(d) 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.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets 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. The fair value of interest rate swaps and forward foreign exchange contracts is calculated as the present value of the estimated future cash flows. 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 purchase costs.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through 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 Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition 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 the income statement.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other operating expenses.

1.10 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 requirement 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 is hedging 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 effective part of 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 present value of future cash flows based on forward exchange market rates at the balance sheet date.

1.11 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 derivatives 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.

1.12 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.

1.13 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 the 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 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 particular other long-term employee benefits.

1.14 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 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.

1.15 Liabilities

Non-current liabilities are recognised initially at fair value. Subsequently they are recorded at amortised cost in the balance sheet. Any differences between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over maturity period using the effective interest method. Current liabilities are recognised at their repayment or settlement value.

1.16 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 carried under cost of sales.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

1.17 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.

1.18 Investment incentives

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.

1.19 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.

1.20 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 (2–10 years) period and the single failure costs, also considering 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).

Provision for disposal of end-of-life vehicles

The Group recognises the provision for disposal of end-of-life vehicles according to EU guideline no. 200/53/EG on the basis of the following parameters:

- The registered cars in the country of the individual companies;
- The official statistics and expected costs for the car's ecological scrapping; and
- The legal requirements valid in individual countries.

Uncertainty is caused by the cost of scrapping, cost of steel, other material, etc. The amount of provision for disposal of end-of-life vehicles is disclosed in Note 16.

Useful life of fixed assets

The Group conducts its primary business activities within automotive sector that involves significant investments into fixed assets. As a result, estimates of useful lives affecting allocation of depreciable amounts of fixed assets and changes of these estimates can significantly influence the profits. The management reviews the useful lives at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate in accordance with IAS 8.

1.21 Financial risk management

The Group operating in the automotive industry in most countries around the world carries out activities that result in a variety of financial risks. In 2006, operations of the Group in this sector experienced a significant turnover and sales volume increase the protection of which makes it necessary to anticipate future developments and guard against potential risks.

The Board of Directors is regularly informed about the current positions of financial risks; whereas, the overall supervision is ensured by periodical meetings on liquidity and the financial risks. The Group's objective is to minimise these risks. This is carried out by a flexible hedging strategy using diversified financial instruments. All the hedging activities are, in line with the concern guidelines, agreed and executed in cooperation with the parent company VOLKSWAGEN AG.

Hedging of foreign currency risks

Risk exposure, resulting from the structure of cash inflows and outflows in foreign currencies is hedged based on foreign currency cash-flow plan. Currency forwards and cross-currency swaps are used as hedge instruments. These are entered into in accordance with time horizons available on financial markets and acceptable presumptions. In addition to the main trading currencies (EUR, USD, and GBP) the Group hedges also the currencies of other European and non-European markets.

Hedging of interest risks

Exposure to interest rate fluctuations arises from the Group's medium- and long-term liabilities resulting from issued bonds. In this area, the Group hedges its cash flows using interest rate swaps.

Territorial and political risks

Export orders from countries with potential territorial and political risks are identified in advance and hedged in compliance with common standards. Partners in that area are Czech and international banking institutions including EGAP.

Nominal amounts of derivatives

CZK million	Remaining term			Nominal amount total	Nominal amount total
	< 1 year	1-5 years	> 5 years	31.12.2006	31.12.2005
Interest rate swaps	3,000	2,000	-	5,000	5,000
Currency forwards	42,951	5,908	-	48,859	72,619
Currency swaps	-	-	-	-	525

1.22 Comparative information

Available for sale financial assets of CZK 159 million (31 December 2005: CZK 181 million) presented separately on the face of balance sheet in the 2005 consolidated financial statement are presented within Other receivables and financial assets in these consolidated financial statements.

2. Segment reporting

Primary reporting format – business segments

At the end of 2006, 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 of the Group are located 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.

2005	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – based on location of customers	24,973	114,249	36,775	11,385	187,382
Costs incurred to acquire segment assets	11,506	59	24	195	11,784
Assets – according to their location	82,204	3,366	2,000	2,185	89,755

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

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

3. 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 1.1.2005	91	18,663	1,651	2,983	23,388
Additions	-	415	2,447	153	3,015
Disposals	-	-	-	(81)	(81)
Transfers	-	288	(288)	-	-
Foreign exchange differences	(4)	-	-	(8)	(12)
Balance at 31.12.2005	87	19,366	3,810	3,047	26,310
Amortization and impairment					
Balance at 1.1.2005	-	(9,412)	-	(1,255)	(10,667)
Amortisation	-	(2,081)	-	(444)	(2,525)
Disposals and transfers	-	-	-	85	85
Foreign exchange differences	-	-	-	7	7
Balance at 31.12.2005	-	(11,493)	-	(1,607)	(13,100)
Carrying amount at 31.12.2005	87	7,873	3,810	1,440	13,210

	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 impairment					
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

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 2,602 million (2005: CZK 2,342 million) is included in the cost of sales, CZK 69 million (CZK 2005: 54 million) in distribution expenses, and CZK 147 million (2005: CZK 129 million) in administrative expenses.

Impairment tests for goodwill

Goodwill is allocated to cash-generating units 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 automotive industry. The expected growth rate for the impairment test in 2006 was 1% (2005: 1%). The discount rates used are pre-tax rates reflecting specific risks and characteristics of the segment where the Company operates. For the year 2006, the discount rate of 9.0% (2005: 9.0%) was used.

The following amounts were recognised in the income statement as research and development expenses:

	2006	2005
Research and non-capitalised development costs	1,940	2,552
Amortisation of development costs	2,367	2,081
Research and development costs recognised in the income statement	4,307	4,633

4. 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 1.1.2005	22,120	50,598	30,954	2,946	106,618
Additions	734	1,020	883	6,053	8,690
Disposals	(59)	(2,776)	(801)	-	(3,636)
Transfers	677	905	452	(2,034)	-
Foreign exchange differences	8	5	(14)	(4)	(5)
Balance at 31.12.2005	23,480	49,752	31,474	6,961	111,667
Depreciation and impairment					
Balance at 1.1.2005	(5,759)	(35,128)	(23,157)	-	(64,044)
Depreciation	(893)	(5,113)	(3,415)	-	(9,421)
Additions to cumulative impairment losses	-	(344)	(2)	-	(346)
Disposals and transfers	45	2,775	782	-	3,602
Foreign exchange differences	(1)	(1)	10	-	8
Balance at 31.12.2005	(6,608)	(37,811)	(25,782)	-	(70,201)
Carrying amount at 31.12.2005	16,872	11,941	5,692	6,961	41,466
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 impairment					
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

In the years 2005 and 2006, the Group has neither owned nor purchased any assets under financial lease agreements.

Total depreciation of the buildings and equipment of CZK 9,040 million (2005: CZK 8,765 million) is included in the cost of sales, CZK 220 million (2005: CZK 175 million) in distribution expenses, and CZK 512 million (2005: CZK 481 million) in administrative expenses.

5. Investments in associates

The Company acquired a 37,5% share in the amount of CZK 187 million in the company OOO VOLKSWAGEN RUS at 26 October 2006.

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

Balance at 31.12.2005	Within one year	After one year	Book value	Fair value
Loans to employees	20	193	213	213
Loans to VW group companies (note 27)	11,208	-	11,208	11,208
Tax receivables (excluding income taxes)	2,575	-	2,575	2,575
Positive fair value of derivatives	247	-	247	247
Available for sale financial assets		181	181	181
Other	380	-	380	380
Total	14,430	374	14 804	14,804

Balance at 31.12.2006	Within one year	After one year	Book value	Fair value
Loans to employees	16	228	244	244
Loans to VW group companies (note 27)	23,721	-	23,721	23,721
Loans to associated companies	250	-	250	250
Tax receivables (excluding income taxes)	2,850	-	2,850	2,850
Positive fair value of derivatives	1,157	-	1,157	1,157
Available for sale financial assets		159	159	159
Other	442	-	442	442
Total	28,436	387	28,823	28,823

The weighted effective interest rate based on carrying amount of loans provided to VW group companies as of 31 December 2006 was 2.43 % (31 December 2005: 2%).

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. Potential risks of delay or default on payments are accounted for by means of accumulated impairment losses recognised.

The carrying value (less impairment provision, if any) of other receivables and financial assets are assumed to approximate their fair values due to the short-term nature of these financial assets.

Derivative financial instruments

The following positive and negative fair values result from the derivative financial instruments (CZK million):

	31.12.2006		31.12.2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	-	68	-	121
Foreign currency forwards – cash flow hedges	1,157	795	247	531
Foreign currency swaps – cash flow hedges	-	-	-	8
Total	1,157	863	247	660

Gains and losses on foreign currency forwards recognised in equity as of year-end 2006 will be released to the income statement at various dates up to two years after the balance sheet date. Gains and losses on interest rates swaps recognised in equity as of 31 December 2006 will be released to the income statement at various dates till the maturity of issued bonds (Note 12).

Fixed interest rates of interest rate swaps as of 31 December 2006 were in range from 3.39 % to 4.10 % (31 December 2005: 3.39 % to 4.10 %)

Further details on the financial derivatives are given in notes 1.10, 1.21 and 14.

7. Inventories (CZK million)

Structure of the inventories	Carrying value 31.12.2006	Carrying value 31.12.2005
Raw materials, consumables and supplies	3,188	3,148
Work in progress	1,907	1,688
Finished products	3,200	3,024
Goods	3,953	4,410
Total inventories	12,248	12,270

The amount of inventories recognised as an expense during 2006 was CZK 170,411 million (2005: CZK 159,408 million).

8. Trade receivables (CZK million)

	31.12.2006	31.12.2005
Trade receivables from:		
Third parties	3,225	4,005
Related parties	2,272	2,219
Total	5,497	6,224

Allowances for impairment losses on trade receivables of CZK 343 million (31 December 2005: CZK 495 million) are reflected in the amounts disclosed above.

The carrying value (less impairment provision, if any) of trade receivables are assumed to approximate their fair values due to the short-term nature of these financial assets.

9. Cash (CZK million)

	31.12.2006	31.12.2005
Cash in hand	4	4
Bank accounts	4,508	1,172
Total	4,512	1,176

The weighted effective interest rate based on carrying amount of bank deposits as of 31 December 2006 was 2.72% (31 December 2005: 1.95%).

10. Share capital

The subscribed capital is composed of 1 670 885 ordinary shares with a par value of CZK 10,000 per share. The only shareholder of the Company is VOLKSWAGEN AG, Wolfsburg, the Federal Republic of Germany.

11. Reserves (CZK million)

	31.12.2006	31.12.2005
Currency translation reserve	(78)	(14)
Reserves for cash flow hedges	78	(510)
Other reserves	(0)	(524)
Statutory reserve fund	1,292	924
Accumulated profit	38,669	27,995
Retained earnings	39,961	28,919
Reserves total	39,961	28,395

Movement in reserve for cash flow hedges:

Balance as at 1.1.2005	42
Fair value losses in year	(349)
Deferred tax on fair value losses	91
Transfers to net profit	(383)
Deferred tax on transfers to net profit	89
Balance as at 31.12.2005	(510)
Fair value gains in year	419
Deferred tax on fair value gains	(112)
Transfers to net profit	375
Deferred tax on transfers to net profit	(94)
Balance as at 31.12.2006	78

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 2006 (determined in accordance with IFRS) is going to be allocated 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.

12. Non-current and current financial liabilities (CZK million)

Balance at 31.12.2005	< 1 year	Remaining term 1-5 years	> 5 years	Total
Bank loans	676	-	-	676
Bonds	-	4,990	-	4,990
Borrowings from VW Group companies	1,799	-	-	1,799
Total	2,475	4,990	-	7,465

Balance at 31.12.2006	< 1 year	Remaining term 1-5 years	> 5 years	Total
Bank loans	-	-	-	-
Bonds	2,998	1,995	-	4,993
Borrowings from VW Group companies	2,333	-	-	2,333
Total	5,331	1,995	-	7,326

Borrowings include payments from a factoring company within the VOLKSWAGEN AG group that results from factored receivables from companies outside the VOLKSWAGEN AG group where the risks and rewards did not substantially transfer to the factoring company.

None from the financial liabilities are secured by a lien.

The Group issued bonds with a total 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 and the RM – System. The bonds were issued pursuant to Czech legislation and are governed by Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat on 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.

On 26 October 2005 the 1st tranche of the 5-year issue of bonds of CZK 5 billion has been fully settled in accordance with the schedule.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
2. tranche	CZ0003501181	3,000	100	30,000	100.00%
3. tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		5,000		50,000	

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

	ISIN	Due date for nominal value	Due date for interest	Bond yield
2. tranche	CZ0003501181	26.10.2007	Semi-annually on 26 April and on 26 October	6M Pribor + 0.14%
3. tranche	CZ0003501199	26.10.2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

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

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2005			Total
					< 1 year	1–5 years	> 5 years	
CZK	floating	1–5 years	2.20%	5,000	–	4,990	–	4,990
EUR	floating/fixed	< 1 year	3.55%	676	676	–	–	676
EUR	floating	< 1 year	2.39%	1,799	1,799	–	–	1,799
Total financial liabilities				7,475	2,475	4,990	–	7,465

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2006			Total
					< 1 year	1–5 years	> 5 years	
CZK	floating	< 1 year	2.97%	3,000	2,298	–	–	2,998
CZK	floating	1–5 years	3.05%	2,000	–	1,995	–	1,995
EUR	floating	< 1 year	–	2,333	2,333	–	–	2,333
Total financial liabilities				7,333	5,331	1,995	–	7,326

Fair value of bonds was CZK 5,000 million as at 31 December 2006 (31 December 2005: CZK 4,997 million). Fair value of bonds was set based on quoted market rates as at 31 December 2006. Fair value of the bank loans and borrowings from VW Group approximates the carrying amounts.

13. Trade payables (CZK million)

	31.12.2006	31.12.2005
Trade payables to:		
Third parties	16,755	15,809
Related parties	2,413	3,046
Total	19,168	18,855

The carrying value of trade payables and other short-term financial liabilities is assumed to approximate their fair values due to the short-term nature of these financial liabilities.

14. Other non-current and current liabilities (CZK million)

Balance at 31.12.2005	< 1 year	> 1 year	Total
Negative fair values of financial derivatives	660	-	660
Other tax liabilities	674	619	1,293
Payables to employees	676	-	676
Social insurance	278	-	278
Other liabilities	40	12	52
Total	2,328	631	2,959
Balance at 31.12.2006	< 1 year	> 1 year	Total
Negative fair values of financial derivatives	863	-	863
Other tax liabilities	789	830	1,619
Payables to employees	1,191	-	1,191
Social insurance	273	-	273
Other liabilities	37	4	41
Total	3,153	834	3,987

Further details on financial derivatives are given in Note 6.

Fair values correspond to the carrying amounts.

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 31.12.2005	< 1 year	> 1 year	Total
Deferred tax liabilities	142	2,695	2,837
Deferred tax assets	182	192	374

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

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

Deferred tax liabilities

	Depreciation	Financial derivatives	Provisions	Tax deductible losses	Consolidation differences	Others	Total
Balance at 1.1.2005	(4,187)	(103)	-	-	-	(91)	(4,381)
Credited/(debited) to the income statement	(323)	-	-	-	-	93	(229)
Charged to equity	-	103	-	-	-	(27)	77
Balance at 31.12.2005	(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)

Deferred tax assets

	Depreciation	Financial derivatives	Provisions	Tax deductible losses	Consolidation differences	Others	Total
Balance at 1.1.2005	-	-	1,443	27	124	3	1,597
Credited/(debited) to the income statement	171	-	247	(25)	(29)	6	370
Charged to equity	-	103	-	-	-	-	103
Exchange differences	-	-	(2)	(1)	5	-	(2)
Balance at 31.12.2005	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

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

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for the disposal of end-of-life vehicles	Provisions for employee expenses	Other provisions	Total
Balance at 1.1.2005	4,939	1,522	316	445	329	7,551
Utilised	(2,902)	(1,399)	(3)	(78)	(54)	(4,436)
Additions	4,373	1,806	-	176	283	6,638
Interest costs	2	-	12	-	-	14
Reversals	-	(97)	(29)	(35)	(1)	(162)
Foreign exchange differences	(4)	(29)	(11)	(2)	(1)	(47)
Balance at 1.1.2006	6,408	1,803	285	506	556	9,558
Utilised	(3,172)	(1,573)	(88)	(155)	(59)	(5,047)
Additions	5,088	1,617	133	253	358	7,449
Interest costs	126	-	19	-	-	145
Reversals	(27)	(116)	-	(2)	(319)	(464)
Foreign exchange differences	(46)	(43)	(11)	(2)	-	(102)
Balance at 31.12.2006	8,377	1,688	338	600	536	11,539

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

Balance at 31.12.2005	< 1 year	> 1 year	Total
Provisions for warranty claims	2,864	3,544	6,408
Provisions for other obligations arising from sales	1,782	21	1,803
Provisions for employee benefits	161	345	506
Provisions for the disposal of end-of-life vehicles	84	201	285
Other provisions	556	-	556
Total	5,447	4,111	9,558
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 the disposal of end-of-life vehicles	99	239	338
Other provisions	533	3	536
Total	4,997	6,542	11,539

Provisions for other obligations arising from sales include provision for sale discounts, sale bonuses and similar allowances 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 long-term employee benefits and severance payments.

Other provisions include mainly provisions for legal fees and penalty interests.

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.

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement comprise in addition to cash reported in the balance sheet also short-term loans due within three months of CZK 23,971 million as at 31 December 2006 (31 December 2005: CZK 11,200 million). Cash flows are presented in the cash flow statement and are classified into cash flows from operating activities, investing activities and financing activities, irrespective of the format of the balance sheet.

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 besides the outflows and inflows of cash from dividend payments, redemption of bonds and factoring liabilities also outflows and inflows from other financial loans.

18. Sales (CZK million)

	2006	2005
Cars	180,551	164,766
Genuine parts and accessories	14,802	12,835
Supplies of components within VW group	5,995	6,833
Other sales	2,311	2,948
Total	203,659	187,382

19. Other operating income (CZK million)

	2006	2005
Foreign exchange gains	1,609	1,661
Income from foreign currency trades	914	834
Gains on non-current assets disposal	44	28
Release of provisions	326	1
Reversal of receivables' impairment losses	245	187
Other	1,609	1,316
Total	4,747	4,027

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.

20. Other operating expenses (CZK million)

	2006	2005
Foreign exchange losses	1,470	1,141
Expenses from foreign currency trades	752	759
Receivables impairment losses and write-offs	206	69
Other	250	555
Total	2,678	2,524

21. Financial result (CZK million)

	2006	2005
Interest income	641	449
Income from trading currency swaps	-	18
Other financial income	3	15
Financial income total	644	482
Interest expenses	(903)	(1,236)
Expenses from trading currency swaps	-	(19)
Other financial expenses	(145)	(14)
Financial expenses total	(1,048)	(1,269)
Net financial result	(404)	(787)

The financial result also consists of derivatives that are not included in the hedge accounting and of derivatives used to hedge the interest risk of issued bonds.

22. Income tax (CZK million)

	2006	2005
Current tax expense – domestic	3,182	2,062
Current tax expense – abroad	456	258
Current tax expense – total	3,638	2,320
Deferred tax income – domestic	(469)	41
Deferred tax income – abroad	(33)	(181)
Deferred tax income	(502)	(140)
Income tax total	3,136	2,180

Statutory income tax rate in the Czech Republic for the 2006 assessment period was 24% (2005: 26%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory rate. In fiscal year 2006, deferred taxes were measured at a tax rate of 24% (2005: 26%) being the weighted average of statutory tax rates enacted for the future periods when crystallization of deferred tax is expected. The local income tax rates applied for companies outside the Czech Republic vary between 19% and 38.52%.

No tax benefits from tax loss carry-forwards from previous years could be realised in 2006. Previously unused tax loss carry-forwards amounted to CZK 18 million. Tax loss carry-forwards can be used within five years. Deferred taxes were recognised where income from subsidiaries was tax-exempt in the past due to specific local regulations, but the tax effects on the discontinuation of the temporary tax exemption have become foreseeable.

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

	2006	2005
Profit before tax	14,198	10,073
Expected income tax expense	3,408	2,619
Effect of different tax rates outside the Czech Republic	22	47
Proportion of taxation relating to:		
Tax exempt income	(165)	(51)
Expenses not deductible for tax purposes	447	443
Other permanent differences	-	(176)
Tax allowances and investment tax credits	(572)	(510)
Prior-period current tax expense	(18)	(34)
Effect of tax rate changes	-	(144)
Other taxation effects	14	(14)
Effective income tax expense	3,136	2,180
Effective income tax rate	22%	22%

23. Investment incentives

The Company utilized, of the total maximum granted amount of investment incentives of CZK 427.5 million for its project Roomster, the amount CZK 258 million (thereof in 2006 CZK 198 million) in the form of tax credit. The Company received in 2006 in the form of subsidy for entrepreneurial activities the amount of CZK 14.3 million as a subvention of the project of development and technology centre. The Company assumes meeting of all the criteria related to provision of the investment incentives.

24. Contingent liabilities (CZK million)

The Group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. The Group has provided bonds as a security of customs debt of CZK 668 million. It is not anticipated that any material liabilities will arise from the contingent liabilities.

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations, requiring detailed tax judgment, for which the ultimate tax determination is uncertain during the ordinary course of business.

The financial authorities are authorised to carry out an audit of book-keeping records at any time during the five years following the end of the taxable period and they may additionally assess income tax and penalty as a result of the audit.

The financial authority carried out a detailed audit of the Company's supporting documentation for income tax return for the 2001 taxable period. The Company's management is not aware of any circumstances that could result in significant liabilities arising from the 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 2007	Payable 2008–2011	31.12.2006	31.12.2005
Investment commitments	4,014	470	4,484	5,165
Leasing installments	79	94	173	188

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 six-month notice period.

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

	2005	2004
Material costs – raw materials and other supplies, goods and production related services	147,590	133,086
Personal costs	12,554	11,432
Wages	9,682	8,850
Social insurance and other personal costs	2,872	2,582
Depreciation and amortization	12,590	11,946
Other services	18,392	21,561
Total cost of goods sold, distribution and administrative expenses	191,126	178,025
Number of employees		
Number of employees*	27,639	26,486

* Average number of employees (including temporary employees)

27. Related party transactions

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.

The Group participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2006	2005
Parent company		
VOLKSWAGEN AG	3,760	2,983
Company controlled by parent company		
Volkswagen Sachsen GmbH	179	259
VOLKSWAGEN Group United Kingdom Ltd.	13,556	12,835
Groupe VOLKSWAGEN France s.a.	5,864	6,169
VOLKSWAGEN SLOVAKIA, a.s.	1,251	1,702
Volkswagen Navarra, S.A.	1,479	1,559
Svenska VOLKSWAGEN AB	3,489	3,708
Import VOLKSWAGEN Group s.r.o.	756	618
VW Group Rus OOO	3,776	2,071
Volkswagen do Brasil Ltda.	1,161	1,798
AUDI AG	4	3
SEAT, S.A.	547	527
AUTOGERMA S.p.A.	5,509	6,219
Volkswagen-Audi Espana S.A.	8,205	7,998
Volkswagen Bruxelles S.A.	416	86
EC GmbH	885	840
Gearbox del Prat, S.A.	19	11
Other related parties		
ROLLS-ROYCE & BENTLEY MOTOR CARS Limited	1	8
Other related parties	408	254
Total	51,265	49,648

Besides sales to related parties stated above the Company also realised in 2006 revenue from licence fees of CZK 120 million (2005: CZK 597 million) from Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the parent company VOLKSWAGEN AG.

Purchases from related parties (CZK million)

Purchases	2006	2005
Parent company		
VOLKSWAGEN AG	24,010	23,843
Companies controlled by parent company		
Volkswagen Sachsen GmbH	2,910	2,643
Volkswagen Versicherungsvermittlungs GmbH	173	173
VOLKSWAGEN Versicherungsdienst GmbH	58	20
VOLKSWAGEN Group United Kingdom Ltd.	58	61
AUTO VISION GmbH	5	4
IAV Ingenieurgesellschaft GmbH	50	31
Groupe VOLKSWAGEN France s.a.	278	358
VOLKSWAGEN SLOVAKIA, a.s.	88	39
AUDI AG	138	285
VOLKSWAGEN Vertriebsbetreungs GmbH	5	7
Volkswagen Bank GmbH, Braunschweig	407	421
VOLKSWAGEN Original Teile GmbH	23	19
AUDI HUNGARIA MOTOR Kft.	13,000	10,499
Import VOLKSWAGEN Group s.r.o.	151	138
ŠkoFIN s.r.o.	584	459
Volkswagen Navarra, S.A.	35	34
Svenska VOLKSWAGEN AB	99	28
SEAT, S.A.	1,503	1,271
AUTOGERMA S.p.A.	401	223
Gearbox del Prat, S.A.	1	10
Volkswagen-Audi Espana S.A.	4	8
Volkswagen Poznan Sp. Z o.o.	249	236
Volkswagen do Brasil Ltda.	10	5
VOTEX, GmbH	22	42
Volkswagen Bordnetze GmbH	11	83
Autostadt GmbH	20	21
Volkswagen Leasing GmbH	153	43
Volkswagen de Mexico S.A.	122	57
Volkswagen Transport GmbH	345	339
Volkswagen of South Africa (Pty.) Ltd.	1	1
VOLKSWAGEN OF AMERICA INC.	27	18
Volkswagen Group Japan KK	2	2
Volkswagen China Investment Comp. Ltd.	-	4
ŠKO-ENERGO, s.r.o.	1,669	1,551
e4t electronics for transportation s.r.o.	48	39
ŠkoLease s.r.o.	17	154
Volkswagen Group Services	206	238
VOLKSWAGEN SARAJEVO, d.o.o.	13	-
Volkswagen Logistics GmbH	1,512	1,417
Volkswagen Gewerberggrund GmbH	7	-
Other related parties		
Other related parties	94	61
Total	48,509	44,885

Receivables from related parties (CZK million)

	31.12.2006	31.12.2005
Parent company		
VOLKSWAGEN AG	231	538
Companies controlled by parent company		
Volkswagen Sachsen GmbH	27	5
VOLKSWAGEN Group United Kingdom Ltd.	112	58
Groupe VOLKSWAGEN France s.a.	86	7
VOLKSWAGEN SLOVAKIA, a.s.	105	114
Volkswagen Navarra, S.A.	118	79
Svenska VOLKSWAGEN AB	21	42
Volkswagen do Brasil Ltda.	139	184
Import VOLKSWAGEN Group s.r.o.	52	38
VW Group Rus OOO	579	421
Volkswagen-Audi Espana S.A.	63	68
ŠkoFIN s.r.o.	403	248
AUDI AG	2	3
SEAT, S.A.	115	104
AUTOGERMA S.p.A.	26	13
Gearbox del Prat, S.A.	6	3
Coordination Center VW NV/SA Belgium	50	-
Other related parties		
Other related parties	137	294
Total	2,272	2,219

In addition to receivables stated in the table above, the Company provided as at 31 December 2006 loans to VOLKSWAGEN AG of CZK 22,100 million (31 December 2005: CZK 8,900 million), ŠkoFIN s.r.o. of CZK 1,300 million (31 December 2005: CZK 2,000 million), Import VOLKSWAGEN Group s.r.o. of CZK 300 million (31 December 2005: CZK 300 million) and ŠKO-ENERGO, s.r.o. of CZK 250 million (31 December 2005: CZK 0 million). Interest from these loans outstanding as at 31 December 2006 was CZK 21 million (31 December 2005: CZK 8 million).

Investments in associates are disclosed in note 5.

Liabilities to related parties (CZK million)

	31.12.2006	31.12.2005
Parent company		
VOLKSWAGEN AG	368	994
Companies controlled by parent company		
Volkswagen Sachsen GmbH	203	146
Volkswagen Versicherungsvermittlungs GmbH	34	-
Volkswagen Poznan Sp. Z o.o.	17	13
VOLKSWAGEN Group United Kingdom Ltd.	148	167
Groupe VOLKSWAGEN France s.a.	52	110
Volkswagen de México, S.A. de C.V.	20	15
Volkswagen Logistics GmbH	283	269
VOLKSWAGEN SLOVAKIA a.s.	8	2
Volkswagen do Brasil Ltda.	2	1
Volkswagen Navarra, S.A.	2	2
Svenska VOLKSWAGEN AB	-	4
ŠKO-FIN, s.r.o.	77	65
Volkswagen-Audi Espana S.A.	64	2
AUDI AG	25	31
AUDI HUNGARIA MOTOR Kft.	776	822
AUTOGERMA S.p.A.	83	81
SEAT, S.A.	44	10
Import Volkswagen Group s.r.o.	20	2
Volkswagen Bank GmbH	34	20
Volkswagen Original Teile Logistic GmbH	2	5
VOTEX, GmbH	1	4
Volkswagen Leasing GmbH	20	16
Volkswagen Group Services	2,333	1,799
Other related parties		
Other related parties	130	148
Total	4,746	4,728

Information on key management personnel remuneration (CZK million)

	31.12.2006	31.12.2005
Salaries and other short-term employee benefits	324	339
Post-employment benefits	-	-
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payment	6	3
Total	330	342

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 AG Group companies in exchange for services rendered to the Group. The remuneration from the other VOLKSWAGEN AG 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 Group. In 2006, the key management personnel included 77 persons (2005: 85).

28. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 30 million (2005: CZK 32 million) and covered the following services.

	2006	2005
Audit and other assurance services	22	23
Tax and related services	3	3
Other advisory services	5	6
Total	30	32

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 consolidated financial statements for the year ended 31 December 2006.

30. Information about VOLKSWAGEN AG Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its 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.) 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, 31 January 2007



Detlef Wittig
Chairman of the
Board of Directors



Holger Kintscher
Member of the
Board of Directors
Commercial Affairs



Jana Šrámová
Director of Accounting



Marek Růžička
Head of closing
accounts and external reporting

AUDITOR'S REPORT ON THE SEPARATE FINANCIAL STATEMENTS

PricewaterhouseCoopers Audit, s.r.o.

Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

Independent Auditors' 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 2006, 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.

Auditors' 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 the 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 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 of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

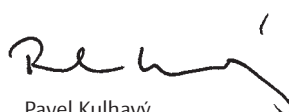
31 January 2007



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner



Pavel Kulhavý
Auditor, Licence No. 1538

INCOME STATEMENT FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	2006	2005
Sales	19	189,816	177,822
Cost of goods sold		167,709	159,187
Gross profit		22,107	18,635
Distribution expenses		6,905	6,558
Administrative expenses		3,161	3,329
Other operating income	20	4,112	3,589
Other operating expenses	21	2,377	2,333
Operating profit		13,776	10,004
Financial income	22	572	450
Financial expenses	22	788	1,014
Financial result		(216)	(564)
Profit before income tax		13,560	9,440
Income tax expense/(income)	23	2,678	2,077
– current		3,182	2,062
– deferred		(504)	15
Profit for the year		10,882	7,363

The notes on pages 101 to 129 are an integral part of these financial statements.

BALANCE SHEET FOR THE YEAR ENDED 31.12.2006

(CZK million)

ASSETS	Note	31.12.2006	31.12.2005
Intangible assets	3	13,233	13,088
Property, plant and equipment	4	39,298	40,954
Investments in subsidiaries	5	608	608
Investments in associates	6	187	-
Other receivables and financial assets	7	388	373
Non-current assets		53,714	55,023
Inventories	8	8,919	8,455
Trade receivables	9	5,350	5,520
Other receivables and financial assets	7	28,104	14,223
Cash	10	1,348	758
Current assets		43,721	28,956
TOTAL ASSETS		97,435	83,979
LIABILITIES	Note	31.12.2006	31.12.2005
Share capital	11	16,709	16,709
Share premium		1,578	1,578
Reserves	12	39,720	28,196
Equity		58,007	46,483
Non-current financial liabilities	13	1,995	4,990
Deferred tax liabilities	16	2,519	2,817
Non-current provisions	17	4,886	3,878
Non-current liabilities		9,400	11,685
Current financial liabilities	13	3,972	898
Trade payables	14	18,581	18,670
Other current liabilities	15	2,301	1,630
Current tax payables		1,645	1,003
Current provisions	17	3,529	3,610
Current liabilities		30,028	25,811
TOTAL LIABILITIES		97,435	83,979

The notes on pages 101 to 129 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	Share capital	Share premium	Reserves		Total equity
				Retained earnings	Reserves for cash flow hedges*	
Balance at 1.1.2005		16,709	1,578	25,810	50	44,147
Profit for the year		-	-	7,363	-	7,363
Dividends paid		-	-	(4,454)	-	(4,454)
Financial derivatives**	12	-	-	-	(573)	(573)
Balance at 31.12.2005		16,709	1,578	28,719	(523)	46,483
Balance at 1.1.2006		16,709	1,578	28,719	(523)	46,483
Profit for the year		-	-	10,882	-	10,882
Dividends paid		-	-	-	-	-
Financial derivatives**	12	-	-	-	642	642
Balance at 31.12.2006		16,709	1,578	39,601	119	58,007

* Net of deferred tax from financial derivatives.

** Explanatory notes on cash flow hedges are presented in Note 1.8.

The notes on pages 101 to 129 are an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31.12.2006

(CZK million)

	Note	2006	2005
Cash and cash equivalents at 1.1.	18	11,958	13,134
Profit before tax		13,560	9,440
Depreciation and impairment of non-current assets	3, 4	12,513	12,202
Change in provisions	17	926	1,022
Loss/(Gain) on disposal of non-current assets		28	(51)
Net interest expense	22	99	601
Change in inventories	8	(464)	777
Change in receivables		(43)	1,030
Change in liabilities		86	(1,259)
Income tax paid from operating activities	23	(2,541)	(1,908)
Interest paid		(527)	(897)
Interest received		583	464
Cash flows from operating activities		24,220	21,421
Purchases of non-current assets	3, 4	(8,079)	(8,567)
Additions to capitalised development costs	3	(2,710)	(2,861)
Acquisition of financial investments		(187)	-
Proceeds from sale of non-current assets		49	129
Cash flows from investing activities		(10,927)	(11,299)
Cash flows netto (operating and investing activities)		13,293	10,122
Dividends paid		-	(4,454)
Change in liabilities from factoring	13	68	(1,844)
Repayment of bonds	13	-	(5,000)
Cash flows from financing activities		68	(11,298)
Net change in cash and cash equivalents		13,361	(1,176)
Cash and cash equivalents at 31.12.	18	25,319	11,958

The notes on pages 101 to 129 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS 2006

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

ŠKODA AUTO a.s.
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.

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 2006 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries and associates for the year ended 31 December 2006. Users of these separate financial statements should read them together with the consolidated financial statements for the year ended 31 December 2006 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

See Company information note for the Company's details.

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these separate financial statements have been adopted by the European Union through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following the Accounting Regulatory Committee decision of October 2004, the Commission adopted the Regulation 2086/2004 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005. As of 31 December 2006 the Council of the European Union has not endorsed following standards and interpretations: IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12.

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 annual report in accordance with IFRS.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant or do not have material impact to the Company's operations:

- IAS 19 – Amendment – Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures (effective date 1 January 2006)
- IAS 21 – Amendment – Net Investment in a Foreign Operation (effective date 1 January 2006)
- IAS 39 – Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective date 1 January 2006)
- IAS 39 – Amendment – The Fair Value Option (effective date 1 January 2006)
- IAS 39 and IFRS 4 – Amendment – Financial Guarantee Contracts (effective date 1 January 2006)
- IFRS 1 – Amendment – First-time Adoption of International Financial Reporting Standards (effective date 1 January 2006)
- IFRS 6 – Exploration for and Evaluation of Mineral Resources (effective date 1 January 2006)
- IFRIC 4 – Determining whether an Arrangement contains a Lease (effective date 1 January 2006)
- IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date 1 January 2006)
- IFRIC 6 – Liabilities arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment (effective date 1 December 2005)

The following standards, amendments and interpretations to existing standards have been published but are not yet effective, that the Company has not early adopted or are not relevant for the Company's operations:

- IAS 1 – Amendment – Presentation of Financial Statements: Capital Disclosures (effective date 1 January 2007)
- IFRS 7 – Financial Instruments: Disclosures (effective date 1 January 2007)
- 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)
- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective date 1 March 2007)
- IFRIC 12 – Service Concession Arrangements (effective date 1 January 2008)
- IFRS 8 – Operating Segments (effective date 1 January 2009)

The above standards are not expected to have material impact on the current recognition and measurement policies, but in particular IFRS 7, IFRS 8 and the amendment of IAS 1 will introduce certain new disclosure requirements.

1.2 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed below. Amounts in the financial statements and in the notes are disclosed in millions of Czech crowns (CZK million), unless stated otherwise.

1.3 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 entity 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.

1.4 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 technological feasibility, and costs can be measured reliably. These development costs are valued at cost 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 costs include all direct costs as well as an appropriate portion of development-related overheads.

The costs are amortised using the straight-line method from the start of production over the expected life cycle of the models or components, generally between 5–10 years. 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.

Government grants related to the purchase of intangible assets are deducted in order to arrive at the carrying amount of the relevant intangible asset.

1.5 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 items.

All repairs and maintenance costs, as well as interest paid, 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

Government grants related to purchase of tangible assets are deducted in order to arrive at the carrying amount of the relevant tangible asset.

1.6 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 flows (cash-generating units).

1.7 Financial Assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; 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. 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 7 and Note 9).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. During the years presented in these separate financial statements the Company did not hold any investments in this category.

(d) 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.

Purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets 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. The fair value of interest rate swaps and forward foreign exchange contracts is calculated as the present value of the estimated future cash flows. 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 purchase costs.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through 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 assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition 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 the income statement.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within other operating expenses.

(e) Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried in these separate financial statements at cost.

1.8 Financial derivatives

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 is hedging 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 are recognised in equity. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect 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 effective part of 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.

1.9 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 derivatives that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Company 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.

1.10 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.

1.11 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 the 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 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 particular other long-term employee benefits.

1.12 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 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.

1.13 Liabilities

Non-current liabilities are recognized initially at fair value. Subsequently they are recorded at amortized cost in the balance sheet. Any differences between proceeds (net of transaction costs) and the repayment amount and the redemption value are recognized in the income statement over maturity period using the effective interest method. Current liabilities are recognized at their repayment or settlement value.

1.14 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 carried under cost of sales.

Distribution expenses include personnel and material costs, and depreciation and amortisation applicable to the distribution function, as well as the costs of shipping, advertising, sales promotion, market research and customer service.

Administrative expenses include personnel costs and overheads as well as depreciation and amortisation applicable to administrative functions.

1.15 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.

1.16 Investment incentives

The Company 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 recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

1.17 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.

1.18 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 (2–10 years) and the single failure costs, also considering 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 17).

Provision for disposal of end-of-life vehicles

The Company recognises the provision for scrapping according to EU guideline no. 200/53/EG on the basis of the following parameters:

- The registered cars in the Czech Republic;
- The official statistics and expected costs for the car's ecological scrapping; and
- The legal requirements valid in the Czech Republic.

Uncertainty is caused by the cost of scrapping, cost of steel, material, etc. The amount of provision for disposal of end-of-life vehicles is disclosed in note 17.

Useful life of fixed assets

The Company conducts its primary business activities within automotive sector that involves significant investments into fixed assets. As a result, estimates of useful lives affecting allocation of depreciable amounts of fixed assets and changes of these estimates can significantly influence the profits. The management reviews the useful lives at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate in accordance with IAS 8.

1.19 Financial risk management

The Company operating in the automotive industry in most countries around the world carries out activities that result in a variety of financial risks. In 2006 the Company's operations in this sector experienced a significant turnover increase the protection of which makes it necessary to anticipate future developments and guard against potential risks.

The Board of Directors is regularly informed about the current positions of financial risks; whereas, the overall supervision is ensured by periodical meetings on liquidity and the financial risks. The objective is to minimise these risks. This is carried out by a flexible hedging strategy using diversified financial instruments. All the hedging activities are, in line with the concern guidelines, agreed and executed in cooperation with the parent company VOLKSWAGEN AG.

Hedging of foreign currency risks

Risk exposure, resulting from the structure of cash inflows and outflows in foreign currencies is hedged based on foreign currency cash flow plan. Currency forwards and cross-currency swaps are used as hedge instruments. These are entered into in accordance with time horizons available on financial markets and acceptable presumptions. In addition to the main trading currencies (EUR, USD, and GBP), the Company hedges also the currencies of other European and non-European markets.

Hedging of interest risks

Exposure to interest rate fluctuations arises from the Company's medium- and long-term liabilities resulting from issued bonds. In this area, the Company hedges its cash flows using interest rate swaps.

Territorial and political risks

Export orders from countries with potential territorial and political risks are identified in advance and hedged in compliance with common standards. Partners in that area are Czech and international banking institutions including EGAP.

Nominal amounts of derivatives

CZK million	Remaining term			Nominal amount total	Nominal amount total
	< 1 year	1–5 years	> 5 years	31.12.2006	31.12.2005
Interest rate swaps	3,000	2,000	–	5,000	5,000
Currency forwards	39,284	5,908	–	45,192	70,114
Currency swaps	–	–	–	–	525

2. Segment reporting

Primary reporting format – business segments

At the end of 2006, 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

Company's sales are generated from four basic geographical regions: the Czech Republic; Western Europe; Central and Eastern Europe; and Overseas/Asia/Africa.

2005	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – based on location of customers	24,973	109,097	33,752	10,000	177,822
Costs incurred to acquire segment assets	11,506	–	–	–	11,506
Assets – according to their location	83,979	–	–	–	83,979
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	97,435	–	–	–	97,435

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

3. 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 1.1.2005	18,663	1,651	2,801	23,115
Additions	414	2,447	124	2,985
Disposals	-	-	(57)	(57)
Transfers	289	(289)	-	-
Balance at 31.12.2005	19,366	3,809	2,868	26,043
Amortization and impairment				
Balance at 1.1.2005	(9,412)	-	(1,101)	(10,513)
Amortisation	(2,081)	-	(423)	(2,504)
Disposals and transfers	-	-	62	62
Balance at 31.12.2005	(11,493)	-	(1,462)	(12,955)
Carrying amount at 31.12.2005	7,873	3,809	1,406	13,088

	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 impairment				
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

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 2,602 million (2005: CZK 2,342 million) is included in the cost of sales, CZK 57 million (CZK 2005: 41 million) in distribution expenses, and CZK 138 million (2005: CZK 121 million) in administrative expenses.

The following amounts were recognised as research and development expenses:

	2006	2 005
Research and non-capitalised development costs	1,940	2,552
Amortisation of development costs	2,367	2,081
Research and development costs recognised in the income statement	4,307	4,633

4. 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 1.1.2005	21,970	50,485	30,533	2,944	105,932
Additions	735	998	830	5,880	8,443
Disposals	(56)	(2,775)	(743)	–	(3,574)
Transfers	559	888	436	(1,883)	–
Balance at 31.12.2005	23,208	49,596	31,056	6,941	110,801
Depreciation and impairment					
Balance at 1.1.2005	(5,723)	(35,083)	(22,890)	–	(63,696)
Depreciation	(885)	(5,097)	(3,370)	–	(9,352)
Additions to cumulative impairment losses	–	(344)	(2)	–	(346)
Disposals	41	2,773	733	–	3,547
Balance at 31.12.2005	(6,567)	(37,751)	(25,529)	–	(69,847)
Carrying amount at 31.12.2005	16,641	11,845	5,527	6,941	40,954
	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 impairment					
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

In the years 2005 and 2006, the Company has neither owned nor purchased any assets under financial lease agreements.

Total depreciation of the buildings and equipment of CZK 9,015 million (2005: CZK 8,747 million) is included in the cost of sales, CZK 197 million (2005: CZK 153 million) in distribution expenses, and CZK 480 million (2005: CZK 452 million) in administrative expenses.

5. Investments in subsidiaries (CZK million)

The Company has investments in the following subsidiaries:

	Country of incorporation	Book value		Shareholding %
		31.12.2006	31.12.2005	
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	360	360	100
Total		608	608	

The subsidiaries are fully consolidated by the Company.

The subsidiaries paid dividends to the Company in the amount of CZK 13 million in 2006 (2005: CZK 27 million).

6. Investments in associates

The Company acquired a 37,5% share in the amount of CZK 187 million in the company OOO VOLKSWAGEN RUS at 26 October 2006.

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

Balance at 31.12.2005	Within one year	After one year	Book value	Fair value
Loans to employees	20	193	213	213
Loans to VW group companies (note 28)	11,208	-	11,208	11,208
Tax receivables (excluding income taxes)	2,462	-	2,462	2,462
Positive fair value of derivatives	229	-	229	229
Available for sale financial assets	-	180	180	180
Other	304	-	304	304
Total	14,223	373	14,596	14,596

Balance at 31.12.2006	Within one year	After one year	Book value	Fair value
Loans to employees	16	228	244	244
Loans to VW group companies (note 28)	23,721	-	23,721	23,721
Tax receivables (excluding income taxes)	2,593	-	2,593	2,593
Positive fair value of derivatives	1,157	-	1,157	1,157
Loans to associated companies	250	-	250	250
Available for sale financial assets	-	160	160	160
Other	367	-	367	367
Total	28,104	388	28,492	28,492

The weighted effective interest rate based on carrying amount of loans provided to VW group companies as of 31 December 2006 was 2.43% (31 December 2005: 2%).

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. Potential risks of delay or default on payments are accounted for by means of accumulated impairment losses recognised.

The carrying value (less impairment provision, if any) of other receivables and financial assets are assumed to approximate their fair values due to the short-term nature of these financial assets.

Derivative financial instruments

The following positive and negative fair value result from the derivative financial instruments (CZK million):

	31.12.2006		31.12.2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	–	68	–	121
Foreign currency forwards – cash flow hedges	1 157	755	229	527
Foreign currency swaps – cash flow hedges	–	–	–	8
Total	1 157	823	229	656

Gains and losses on foreign currency forwards recognised in equity as of year-end 2006 will be released to the income statement at various dates up to two years after the balance sheet date. Gains and losses on interest rates swaps recognised in equity as of year-end 2006 will be released to the income statement at various dates till the maturity of issued bonds (Note 13).

Fixed interest rates of interest rate swaps as of 31 December 2006 were in range from 3.39% to 4.10% (31 December 2005: from 3.39% to 4.10%).

Further details on the financial derivatives are given in notes 1.8, 1.19 and 15.

8. Inventories (CZK million)

Structure of the inventories	Carrying value 31.12.2006	Carrying value 31.12.2005
Raw materials, consumables and supplies	2,687	2,545
Work in progress	1,819	1,638
Finished products	2,786	2,749
Goods	1,627	1,522
Total inventories	8,919	8,455

The amount of inventories recognised as an expense during 2006 was CZK 163,958 million (2005: CZK 156,696 million).

9. Trade receivables (CZK million)

	31.12.2006	31.12.2005
Trade receivables from:		
Third parties	2,483	2,888
Subsidiaries	609	704
Other related parties	2,258	1,928
Total	5,350	5,520

Allowances for impairment losses on trade receivables of CZK 277 million (2005: CZK 422 million) were already reflected in the amounts noted above.

The carrying value (less impairment provision, if any) of trade receivables are assumed to approximate their fair values due to the short-term nature of these financial assets.

10. Cash

	31.12.2006	31.12.2005
Cash in hand	3	3
Bank accounts	1,345	755
Total	1,348	758

The weighted effective interest rate based on carrying amount of bank deposits as of 31 December 2006 was 2.72 % (31 December 2005: 1.95%).

11. Share capital

The subscribed capital is composed of 1 670 885 ordinary shares with a par value of CZK 10,000 per share. The only shareholder of the Company is VOLKSWAGEN AG, Wolfsburg, the Federal Republic of Germany.

12. Reserves (CZK million)

	31.12.2006	31.12.2005
Reserve for cash flow hedges	119	(523)
Other reserves	119	(523)
Statutory reserve fund	1,292	924
Accumulated profit	38,309	27,795
Retained earnings	39,601	28,719
Reserves total	39,720	28,196

Movement in reserve for cash flow hedges:

Balance as at 1.1.2005	50
Fair value losses in year	(378)
Deferred tax on fair value losses	91
Transfers to net profit	(375)
Deferred tax on transfers to net profit	89
Balance as at 31.12.2005	(523)
Fair value gains in year	460
Deferred tax on fair value gains	(112)
Transfers to net profit	388
Deferred tax on transfers to net profit	(94)
Balance as at 31.12.2006	119

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 2006 (determined in accordance with IFRS) is going to be allocated based on the decision of the Company's annual general meeting.

13. Non-current and current financial liabilities (CZK million)

Balance at 31.12.2005	< 1 year	Remaining term 1-5 years	> 5 years	Total
Bonds	-	4,990	-	4,990
Borrowings from VW Group companies	898	-	-	898
Total	898	4,990	-	5,888

Balance at 31.12.2006	< 1 year	Remaining term 1-5 years	> 5 years	Total
Bonds	2,998	1,995	-	4,993
Borrowings from VW Group companies	974	-	-	974
Total	3,972	1,995	-	5,967

Borrowings include payments from a factoring company within the VOLKSWAGEN AG group that results from factored receivables from companies outside the VOLKSWAGEN AG group where the risks and rewards did not substantially transfer to the factoring company.

None from the financial liabilities are secured by a lien.

The Company issued bonds with a total 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 and the RM – System. The bonds were issued pursuant to Czech legislation and are governed by Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. was the lead manager and Československá obchodní banka, a.s. with its registered seat on 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.

On 26 October 2005, the 1st tranche of the 5-year issue of bonds of CZK 5 billion has been fully settled in accordance with the schedule.

	ISIN	Total nominal value in million CZK	Nominal value per bond in thousand CZK	No. of bonds in pcs	Issue rate
2.tranche	CZ0003501181	3,000	100	30,000	100.00%
3.tranche	CZ0003501199	2,000	100	20,000	100.00%
Total		5,000		50,000	

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

	ISIN	Due date for nominal value	Due date for interest	Bond yield
2. tranche	CZ0003501181	26.10.2007	Semi-annually on 26 April and on 26 October	6M Pribor + 0.14%
3. tranche	CZ0003501199	26.10.2010	Semi-annually on 26 April and on 26 October	6M Pribor + 0.22%

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

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2005			Total
					< 1 year	1–5 years	> 5 years	
CZK	floating	1–5 years	2.20%	5,000	–	4,990	–	4,990
EUR	floating	< 1 year	2.39%	898	898	–	–	898
Total financial liabilities				5,898	898	4,990	–	5,888

Currency	Interest terms	Interest commitment ending	Weighted effective interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2006			Total
					< 1 year	1–5 years	> 5 years	
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

Fair value of bonds was CZK 5,000 million as at 31 December 2006 (31 December 2005: CZK 4,997 million). The fair value of bonds was set based on quoted market rates as at 31 December 2006. Fair value of the borrowings from VW Group approximates the carrying amounts.

14. Trade payables (CZK million)

	31.12.2006	31.12.2005
Trade payables to:		
Third parties	15,264	15,018
Subsidiaries	1,133	766
Other related parties	2,184	2,886
Total	18,581	18,670

The carrying value of trade payables is assumed to approximate their fair values due to the short-term nature of these financial liabilities.

15. Other non-current and current liabilities (CZK million)

Balance at 31.12.2005	< 1 year	> 1 year	Carrying amount at 31.12.2005
Negative fair values of financial derivatives	656	-	656
Payables to employees	673	-	673
Other tax liabilities	1	-	1
Social insurance	260	-	260
Other liabilities	40	-	40
Total	1,630	-	1,630

Balance at 31.12.2006	< 1 year	> 1 year	Carrying amount at 31.12.2006
Negative fair values of financial derivatives	823	-	823
Payables to employees	1 169	-	1 169
Social insurance	272	-	272
Other liabilities	37	-	37
Total	2,301	-	2,301

Further details on financial derivatives are given in note 7.

Fair values correspond to the carrying amounts.

16. 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 31.12.2005	< 1 year	> 1 year	Total
Deferred tax liabilities	(123)	(2,694)	(2,817)

Balance at 31.12.2006	< 1 year	> 1 year	Total
Deferred tax liabilities	(111)	(2,408)	(2,519)

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

Deferred tax liabilities

	Depreciation	Financial derivatives	Provisions	Others	Total
Balance at 1.1.2005	(4,178)	(103)	-	(75)	(4,356)
Credited/(debited) to the income statement	(322)	-	-	94	(228)
Charged to equity	-	103	-	(26)	77
Balance at 31.12.2005	(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)

Deferred tax assets

	Depreciation	Financial derivatives	Provisions	Others	Total
Balance at 1.1.2005	-	-	1,374	-	1,374
Credited/(debited) to the income statement	-	-	213	-	213
Charged to equity	-	103	-	-	103
Balance at 31.12.2005	-	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

17. 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 1.1.2005	4,831	923	356	68	288	6,466
Utilised	(2,837)	(845)	(9)	-	(20)	(3,711)
Additions	3,612	827	127	-	284	4,850
Interest costs	2	-	-	2	-	4
Reversals	-	(78)	(31)	(12)	-	(121)
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 31.12.2006	6,721	770	543	78	303	8,415

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

Balance at 31.12.2005	< 1 year	> 1 year	Total
Provisions for warranty claims	2,064	3,544	5,608
Provisions for other obligations arising from sales	827	-	827
Provisions for employee benefits	109	334	443
Provisions for the disposal of end-of-life vehicles	58	-	58
Other provisions	552	-	552
Total	3,610	3,878	7,488

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

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 long-term employee benefits and severance payments.

Other provisions include mainly provisions for legal fees and penalty interest.

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.

18. Cash flow statement

The cash and cash equivalents contained in the cash flow statement do not comprise only cash reported in the balance sheet, but include also other liquid means in form of short term loans to due within three months of CZK 23,971 million as at 31 December 2006 (31 December 2005: CZK 11,200 million). Cash flows are presented in the cash flows statement and are classified into cash flow from operating activities, investing activities and financing activities, irrespective of the format of the balance sheet.

Cash flows from operating activities are derived indirectly from profit before tax. Profit before tax is adjusted to eliminate non-cash expenses (e.g. 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 besides the outflows and inflows of cash from dividend payments, redemption of bonds and factoring liabilities also outflows and inflows from other financial loans.

19. Sales (CZK million)

	2006	2005
Cars	170,496	157,476
Genuine parts and accessories	11,252	10,717
Supplies of components within VW group	5,995	6,833
Other sales	2,073	2,796
Total	189,816	177,822

20. Other operating income (CZK million)

	2006	2005
Foreign exchange gains	1,564	1,640
Income from foreign currency trades	881	835
Gains on non-current assets disposal	44	28
Release of provisions	315	-
Reversal of receivables' impairment losses	186	67
Other	1,122	1,019
Total	4,112	3,589

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.

21. Other operating expenses (CZK million)

	2006	2005
Foreign exchange losses	1,456	1,117
Expenses from foreign currency trades	733	754
Receivables' impairment losses and write-offs	132	57
Other	56	405
Total	2,377	2,333

22. Financial result (CZK million)

	2006	2005
Interest income	555	390
Income from trading currency swaps	-	18
Other financial income	17	42
Financial income total	572	450
Interest expenses	(654)	(991)
Expenses from trading currency swaps	-	(19)
Other financial expenses	(134)	(4)
Financial expenses total	(788)	(1,014)
Net financial result	(216)	(564)

The financial result also consists of derivatives that are not included in hedge accounting and of derivatives used to hedge the interest risk of issued bonds.

23. Income tax (CZK million)

	2006	2005
Current tax expense	3,182	2,062
of which: adjustment of tax base of prior period	(110)	(34)
Deferred tax expense/(income)	(504)	15
Income tax total	2,678	2,077

Statutory income tax rate in the Czech Republic for the 2006 assessment period was 24% (2005: 26%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory rate. In fiscal year 2006, deferred taxes were measured at a tax rate of 24% (2005: 24%) that is the statutory tax rate enacted for the future periods when crystallization of deferred tax is expected.

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

	2006	2005
Profit before tax	13,560	9,440
Expected income tax expense	3,254	2,454
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(165)	(50)
Expenses not deductible for tax purposes	295	435
Other permanent differences	-	(176)
Tax allowances and investment tax credits	(572)	(510)
Prior-period current tax expense	(110)	(34)
Effect of tax rate changes	-	(15)
Other taxation effects	(24)	(27)
Effective income tax expense	2,678	2,077
Effective income tax rate	20%	22%

24. Investment incentives

The Company utilized, of the total maximum granted amount of investment incentives of CZK 427.5 million for its project Roomster, the amount CZK 258 million (thereof in 2006 CZK 198 million) in the form of tax credit. The Company received in 2006 in the form of subsidy for entrepreneurial activities the amount of CZK 14.3 million as a subvention of the project of development and technology centre. The Company assumes meeting of all the criteria related to provision of the investment incentives.

25. Contingent liabilities (CZK million)

The Company has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations, requiring detailed tax judgment, for which the ultimate tax determination is uncertain during the ordinary course of business.

The financial authorities are authorised to carry out on audit of book-keeping records at any time during the 4 years following the end of the taxable period and they may additionally assess income tax and penalty as a result of the audit.

The financial authority carried out a detailed audit of the Company's supporting documentation for income tax return for the 2001 taxable period. The Company's management is not aware of any circumstances that could result in significant liabilities arising from the audits in the future.

26. 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 2007	Payable 2008–2011	31.12.2006	31.12.2005
Investment commitments	3,989	471	4,460	5,165
Leasing installments	79	94	173	130

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 six-month notice period.

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

	2006	2005
Material costs – raw materials and other supplies, goods and production related services	139,837	130,277
Personal costs	11,882	10,788
Wages	9,092	8,276
Social insurance and other personal costs	2,790	2,512
Depreciation and amortization	12,489	11,856
Other services	13,567	16,153
Total cost of goods sold, distribution and administrative expenses	177,775	169,074
Number of employees		
Number of employees*	26,697	25,789

* Average number of employees (including temporary employees)

28. Related party transactions

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.

The Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2006	2005
Parent company		
VOLKSWAGEN AG	2,389	2,983
Subsidiaries		
Skoda Auto India Private Ltd.	4,077	2,846
ŠkodaAuto Deutschland GmbH	36,072	33,322
ŠKODA AUTO Slovensko, s.r.o.	6,601	5,891
Skoda Auto Polska S.A.	8,470	7,755
Companies controlled by parent company		
Volkswagen Sachsen GmbH	180	259
VOLKSWAGEN Group United Kingdom Ltd.	13,502	12,835
Groupe VOLKSWAGEN France s.a.	5,550	6,169
VOLKSWAGEN SLOVAKIA, a.s.	1,264	1,702
Volkswagen Navarra, S.A.	1,485	1,559
Svenska VOLKSWAGEN AB	3,487	3,708
Import VOLKSWAGEN Group s.r.o.	-	618
VW Group Rus OOO	3,725	2,071
Volkswagen do Brasil Ltda.	1,162	1,798
AUDI AG	4	4
SEAT, S.A.	547	527
AUTOGERMA S.p.A.	5,504	6,219
Volkswagen-Audi Espana S.A.	7,736	7,998
Gearbox del Prat, S.A.	19	11
Volkswagen Bruxelles, S.A.	418	86
Volkswagen Motor Polska Sp. Z o.o.	5	-
Volkswagen Logistics GmbH	8	-
VOLKSWAGEN SARAJEVO, d.o.o.	579	-
Volkswagen of South Africa (pty.) Ltd.	5	-
Shanghai Volkswagen Co. Ltd.	62	177
Volkswagen Original Teile Logistik GmbH	6	-
Other related parties		
ROLLS-ROYCE& BENTLEY MOTOR CARS Limited	1	8
Other related parties	5	2
Total	102,863	98,548

Sales to Skoda Auto India Private Ltd. include revenues from royalties in the amount of CZK 45 million (2005: CZK 61 million) and revenues based on the technology support agreement for the year 2006 in the amount of CZK 132 million (2005: CZK 151 million).

Besides sales to related parties stated in the table above the Company also realized in 2006 revenue from licence fees of CZK 120 million (2005: CZK 597 million) from Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the parent company VOLKSWAGEN AG.

Dividends received from subsidiaries are disclosed in note 5.

Purchases from related parties (CZK million)

	2006	2005
Parent company		
VOLKSWAGEN AG	21,569	22,806
Subsidiaries		
Skoda Auto India Private Ltd.	11	18
ŠkodaAuto Deutschland GmbH	640	381
ŠKODA AUTO Slovensko, s.r.o.	139	150
Skoda Auto Polska S.A.	227	98
Companies controlled by parent company		
Volkswagen Sachsen GmbH	2,907	2,641
Volkswagen Versicherungsvermittlungs GmbH	140	153
IAV Ingenieurgesellschaft GmbH	50	31
VOLKSWAGEN Group United Kingdom Ltd.	58	61
Groupe VOLKSWAGEN France s.a.	278	358
VOLKSWAGEN SLOVAKIA, a.s.	88	22
AUTO VISION, GmbH	4	4
AUDI AG	138	284
AUDI HUNGARIA MOTOR Kft.	13,000	10,499
Import VOLKSWAGEN Group s.r.o.	151	138
ŠkoFIN s.r.o.	584	459
Volkswagen Navarra, S.A.	35	34
Svenska VOLKSWAGEN AB	99	28
SEAT, S.A.	755	680
AUTOGERMA S.p.A.	401	223
Gearbox del Prat, S.A.	1	10
Volkswagen-Audi Espana S.A.	4	8
Volkswagen Poznan Sp. Z o.o.	246	233
Volkswagen do Brasil Ltda.	10	5
VOTEX, GmbH	18	28
Volkswagen Bordnetze GmbH	11	83
Autostadt GmbH	20	21
Volkswagen de Mexico S.A.	122	57
Volkswagen of South Africa (pty.) Ltd.	1	1
VOLKSWAGEN OF AMERICA, INC.	27	18
Volkswagen Group Japan KK	2	2
Volkswagen Bruxelles S.A.	8	4
Volkswagen China Investment Comp. Ltd.	-	4
ŠKO-ENERGO, s.r.o.	1,669	1,551
e4t electronics for transportation s.r.o.	48	39
ŠkoLease s.r.o.	17	154
Volkswagen Group Services	206	238
Volkswagen Logistics GmbH	1,512	1,418
Other related parties		
Other related parties	43	14
Total	45,239	42,956

Receivables from related parties (CZK million)

	31.12.2006	31.12.2005
Parent company		
VOLKSWAGEN AG	231	357
Subsidiaries		
Skoda Auto India Private Ltd.	524	614
Skoda Auto Polska S.A.	83	54
ŠKODA AUTO Slovensko, s.r.o.	42	36
Companies controlled by parent company		
Volkswagen Sachsen GmbH	27	4
VOLKSWAGEN Group United Kingdom Ltd.	112	58
Groupe VOLKSWAGEN France s.a.	86	7
VOLKSWAGEN SLOVAKIA, a.s.	105	114
Volkswagen Navarra, S.A.	118	79
Svenska VOLKSWAGEN AB	21	41
Volkswagen do Brasil Ltda.	139	184
Import VOLKSWAGEN Group s.r.o.	52	38
VW Group Rus OOO	579	421
Volkswagen-Audi Espana S.A.	63	68
ŠkoFIN s.r.o.	403	248
AUDI AG	-	3
SEAT, S.A.	113	52
AUTOGERMA S.p.A.	26	13
Gearbox del Prat, S.A.	6	3
Volkswagen Motor Polska Sp. Z o.o.	2	-
Volkswagen Bruxelles, S.A.	50	-
Volkswagen Logistics GmbH	1	-
Other related parties		
Other related parties	124	238
Total	2,907	2,632

In addition to receivables stated in the table above, the Company provided as at 31 December 2006 loans to VOLKSWAGEN AG in the amount of CZK 22,100 million (31 December 2005: CZK 8,900 million), ŠkoFIN s.r.o. in the amount of CZK 1,300 million (31 December 2005: CZK 2,000 million), Import VOLKSWAGEN Group s.r.o. in the amount of CZK 300 million (31 December 2005: CZK 300 million) and ŠKO-ENERGO, s.r.o. of CZK 250 million (31 December 2005: CZK 0 million). Interest from these loans outstanding as at 31 December 2006 was CZK 21 million (31 December 2005: CZK 8 million).

Investments in associates are disclosed in note 6.

Liabilities to related parties (CZK million)

	31.12.2006	31.12.2005
Parent company		
VOLKSWAGEN AG	299	994
Subsidiaries		
Skoda Auto India Private Ltd.	1	5
Skoda Auto Polska S.A.	99	62
ŠkodaAuto Deutschland GmbH	1,025	699
ŠKODA AUTO Slovensko, s.r.o.	8	-
Companies controlled by parent company		
Volkswagen Sachsen GmbH	203	146
Volkswagen Poznan Sp. z o.o.	17	13
VOTEX GmbH	1	3
VOLKSWAGEN Group United Kingdom Ltd.	148	167
Groupe VOLKSWAGEN France s.a.	52	109
Volkswagen de México, S.A. de C.V.	20	15
VOLKSWAGEN SLOVAKIA a.s.	8	2
Volkswagen do Brasil Ltda.	2	1
Volkswagen Navarra, S.A.	2	2
Svenska VOLKSWAGEN AB	-	4
ŠKO-FIN, s.r.o.	77	66
Import VOLKSWAGEN Group s.r.o.	20	2
Volkswagen-Audi Espana S.A.	64	2
Gearbox del Prat, S.A.	1	1
AUDI AG	25	31
AUDI HUNGARIA MOTOR Kft.	776	822
AUTGERMA S.p.A.	83	81
SEAT, S.A.	25	6
Volkswagen Group Services	974	898
Volkswagen Logistics GmbH	252	250
Other related parties		
Other related parties	109	53
Total	4,291	4,434

Information on key management personnel remuneration (CZK million):

	2006	2005
Salaries and other short-term employee benefits	324	339
Post-employment benefits	-	-
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payments	6	3
Total	330	342

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 Company in the form of salaries, bonuses and non-monetary remuneration also remuneration from other VOLKSWAGEN AG Group companies in exchange for services rendered to the Company. The remuneration from the other VOLKSWAGEN AG 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 2006, the key management personnel included 77 persons (2005: 85).

29. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 25 million (2005: CZK 26 million) and covered the following services.

	2006	2005
Audit and other assurance services	17	17
Tax and related services	3	3
Other advisory services	5	6
Total	25	26

30. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the financial statements for the year ended 31 December 2006.

31. Information about VOLKSWAGEN AG Group

ŠKODA AUTO a.s. is a subsidiary included in the consolidation group of its 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.) 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 the internet site of VOLKSWAGEN AG (website: www.volkswagen-ir.de).

Mladá Boleslav, 31 January 2007



Detlef Wittig
Chairman of the
Board of Directors



Holger Kintscher
Member of the
Board of Directors
Commercial Affairs



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 2006 – 31 December 2006

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, Tr. 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 2006 to 31 December 2006 (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.

Throughout the accounting period, Volkswagen was the sole shareholder of Škoda Auto with 100% voting rights.

Contracts concluded

Škoda Auto and Volkswagen, and Škoda Auto and the companies controlled by Volkswagen concluded contracts in the following areas during the accounting period:

1. Sale of own products, goods and services

a) vehicles

Škoda Auto did not conclude any vehicle sale contracts in the accounting period.

b) genuine parts

Škoda Auto did not conclude any genuine part sale contracts in the accounting period.

c) other

Škoda Auto entered into service, licence and other products sale contracts with the following companies:

AUDI AG

VOLKSWAGEN AG

Shanghai Volkswagen Automotive Co. Ltd.

e4t electronics for transportation s.r.o.

SEAT, S.A.

ROLLS-ROYCE & BENTLEY MOTOR CARS LIMITED

2. Purchase of goods and services

a) production material

Škoda Auto concluded production material purchase contracts with the following companies:

AUDI AG

AUDI HUNGARIA MOTOR Kft.

VOLKSWAGEN AG

VOLKSWAGEN SLOVAKIA, a.s.

Volkswagen Sachsen GmbH

VOTEX, GmbH

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, logistic systems support, logistic systems 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

ŠkodaAuto Deutschland GmbH

Volkswagen-Bildungsinstitut GmbH

Volkswagen Bordnetze GmbH

Auto 5000 GmbH

Volkswagen do Brasil Ltda.

Gearbox del Prat, S.A.

AUTO VISION GmbH

Import VOLKSWAGEN Group s.r.o.

MMI Marketing Management Institut GmbH

Skoda Auto Polska S.A.

Volkswagen de México, S.A. de C.V.

VOLKSWAGEN Gewerbegründung GmbH

VOTEX, GmbHGroupe

VOLKSWAGEN France s.a.

e4t electronics for transportation s.r.o.

Volkswagen-Audi Espana S.A.

Automobilmanufaktur Dresden GmbH

IAV Ingenieurgesellschaft GmbH

Volkswagen Group Japan KK

AUDI HUNGARIA MOTOR Kft.

SITECH Sp. Z o.o.

SEAT, S.A.

Volkswagen Motor Polska Sp. Z o.o.

Volkswagen Poznan Sp. Z o.o.

VOLKSWAGEN SLOVAKIA, a.s.

Volkswagen Bruxelles S.A.

Volkswagen Logistics GmbH

Svenska VOLKSWAGEN AB

AUTOGERMA S.p.A.

c) genuine parts

As part of genuine parts purchasing, Škoda Auto entered into contracts with the following partners:

AUDI HUNGARIA MOTOR Kft.

VOLKSWAGEN AG

Volkswagen Sachsen GmbH

SITECH Sp. Z o.o.

Volkswagen de México, S.A. de C.V.

Volkswagen do Brasil Ltda.

Gearbox del Prat, S.A.

d) investment

Škoda Auto entered into investment purchase contracts with the following companies:

VOLKSWAGEN AG

Import VOLKSWAGEN Group s.r.o.

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, short-term loans) with the following companies:

ŠKODA AUTO Slovensko s.r.o.

Import VOLKSWAGEN Group s.r.o.

ŠkoFIN s.r.o.

Svenska VOLKSWAGEN AB

INIS International Insurance Service s.r.o.

Autostadt GmbH

ŠkodaAuto Deutschland GmbH

Skoda Auto Polska S.A.

e4t electronics for transportation s.r.o.

VW Finance Belgium SA

VOLKSWAGEN Group United Kingdom Ltd.

VW Group Services SCS Belgium SA

AUTOGERMA S.p.A.

Shanghai Volkswagen Automotive Co. Ltd.

VOLKSWAGEN AG

OOO VOLKSWAGEN RUS

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 and sole shareholder of Škoda Auto. In 2006, Škoda Auto took a stake in Volkswagen Rus and subsequently increased that company's basic share capital. The stake in Volkswagen Rus so acquired by Škoda Auto is 37.5%. The remaining 62.5% is owned by Volkswagen.

On 5 October 2006, the register court in Sarajevo permitted the liquidation of ŠKODA AUTO BH d.o.o. On the same day, notification of the liquidation was published in the press along with a call for any creditors of the company to lodge their claims.

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 sole shareholder 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 sole shareholder of Škoda Auto, were taken or implemented by Škoda Auto.

Transactions with related parties during the accounting period are disclosed in the notes 5, 6, 9, 14 and 28 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.

Remuneration of the Management Staff and Supervisory Board of Škoda Auto

Act No. 256/2004 Coll. On Business Activities on the Capital Market, as amended, requires public companies to disclose, inter alia, information on all monetary and in-kind income received by executives for the accounting period, separately for all members of the Board of Directors and of the Supervisory Board, including the principles under which such remuneration was paid.

Remuneration Principles

Under the terms of said Act, the amounts so disclosed include income received from the issuer itself as well as any income that may have been received from other companies of the Škoda Auto Group in return for work done for the benefit of ŠKODA AUTO a.s.

The fixed component of compensation provides members of the Board of Directors with a monetary base income to allow them to perform the duties of their office in the Company's interests, without being exclusively dependent on the Company's short-term success criteria.

In addition to the fixed compensation component consisting of wages, compensation also includes a variable component in the form of bonuses. This variable component, which is largely determined by the Company's financial performance results, guarantees that the Board of Directors' interests are in line with those of the shareholders.

As of the publication date of the 2006 Annual Report, bonuses relating to the accounting period and the meeting of targets set for 2006 had not been approved; they will be paid in 2007. For this reason, the amounts given below contain bonus amounts relating to 2005 performance that have actually been paid. During 2006, members of the Board of Directors and Supervisory Board also received in-kind income in the form of company cars, accommodation, and training programmes.

The Company did not extend any loans to the Board of Directors/Supervisory board members.

All income, whether monetary and in-kind, received by the Board of Directors/Supervisory board members by virtue of their position at ŠKODA AUTO a.s., received from the issuer or other companies of the Škoda Auto Group, was as follows:

in CZK	2005	2006
Members of the Board of Directors	13,649,159	16,516,138
Members of the Supervisory Board	1,223,196	1,278,278

GLOSSARY OF TERMS AND ABBREVIATIONS

CAS	Czech Accounting Standards for businesses and other regulations valid in the Czech Republic, in particular Act No. 563/1991 Coll. on Accounting and Decree No. 500/2002 Coll.
Company	The word “Company” in this annual report is used as a synonym for the company name ŠKODA AUTO a.s.
Consolidation Group	In addition to ŠKODA AUTO a.s. with its seat in Mladá Boleslav, the consolidation group includes all material subsidiaries and associates.
Deliveries to customers	Number of Škoda brand vehicles handed over to end customers.
e-learning	A training method that utilises electronic learning programs on personal computers.
ESP	Electronic stabilising system – a vehicle system that utilises the capabilities of the brakes’ antiblocking and antiskid system.
FIA	International Automobile Federation.
For Motion Plus	A Volkswagen Group programme that aims to improve profits by focusing in particular on cost-cutting.
Gross cash flow	Operating cash flow adjusted for changes in working capital.
Gross liquidity	Liquid funds, i.e. cash and cash equivalents, including short-term lendings.
Group	The expressions “Group” and “Škoda Auto Group” in the annual report are used as synonyms for the Škoda Auto consolidation group.
IAA Frankfurt	International motor show held annually in Frankfurt-am-Main, Germany.
IAS, IFRS	International Financial Reporting Standards, as approved by the European Union.

Investment ratio	Ratio of investments to sales revenues.
Investments	Incremental increase in tangible and intangible fixed assets adjusted for incremental capitalisation of research and development expenditures.
IQS	Initial Quality Study – takes into account number of defects or problems with new vehicles during first 90 days of operation.
MPV	Multi Purpose Vehicle.
Net liquidity	Gross liquidity less financial liabilities, including factoring liabilities.
Profit-to-sales ratio	Profit expressed as a percentage of total sales.
Registrations	Number of new Škoda brand vehicles registered in a given market.
Sales volume	Number of Škoda brand vehicles sold to importers and dealers.
Temporary workers	Employees of a labour agency who are temporary 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, designed to encourage and create conditions for employee activity focused on cost savings in all areas, streamlining work processes, and improving quality, work flow, the environment, and work conditions.

PERSONS RESPONSIBLE FOR THE ANNUAL REPORT AND POST-BALANCE SHEET EVENTS

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.

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

Mladá Boleslav, on 9 February 2007



Detlef Wittig

Chairman of the Board of Directors



Holger Kintscher

Member of the Board of Directors, Commercial Affairs



Jana Šrámová

Head of Accounting



Marek Růžička

Responsible for Financial Statements and Compliance

BUSINESS RESULTS IN REVIEW

ŠKODA AUTO a.s. Financial Figures At a Glance, 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
Total 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
Gross cash flow	CZK millions	9,780	10,756	11,693	12,854	13,002	15,176
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

Financial Figures At a Glance, According to IFRS*

Production, Sales and Technical Data

		Škoda Auto Group			ŠKODA AUTO a.s.		
		2004	2005	2006	2004	2005	2006
Deliveries to customers	vehicles	451,675	492,111	549,667	451,675	492,111	549,667
Sales	vehicles	444,458	498,467	559,821	441,820	493,119	555,202
Production	vehicles	443,868	494,127	556,347	444,121	494,637	556,433
Employees	persons	25,225	26,742	27,680	24,561	26,014	26,738
of which: External persons	persons	3,664	3,460	3,879	3,664	3,460	3,704

Profit and Loss Account

		Škoda Auto Group			ŠKODA AUTO a.s.		
		2004	2005	2006	2004	2005	2006
Sale	CZK millions	163,665	187,382	203,659	155,396	177,822	189,816
of which: Domestic	%	14.7	13.3	12.6	15.5	14.0	13.5
Export	%	85.3	86.7	87.4	84.5	86.0	86.5
Cost of products, goods and services sold	CZK millions	144,368	163,738	175,636	140,996	159,187	167,709
	% of sales	88.2	87.4	86.2	90.7	89.5	88.4
Gross profit	CZK millions	19,297	23,644	28,023	14,400	18,635	22,107
	% of sales	11.8	12.6	13.8	9.3	10.5	11.6
Sales expenses	CZK millions	10,278	10,611	11,903	6,137	6,558	6,905
Administrative expenses	CZK millions	3,513	3,676	3,587	3,157	3,329	3,161
Balance of other operating revenues/costs	CZK millions	389	1,503	2,069	183	1,256	1,735
Operating profit	CZK millions	5,895	10,860	14,602	5,289	10,004	13,776
	% of sales	3.6	5.8	7.2	3.4	5.6	7.3
Financial result	CZK millions	(1,052)	(787)	(404)	(865)	(564)	(216)
Profit before income tax	CZK millions	4,843	10,073	14,198	4,424	9,440	13,560
Profit before income tax-to-sales ratio	% of sales	3.0	5.4	7.0	2.8	5.3	7.1
Tax on profit or loss	CZK millions	1,474	2,180	3,136	1,291	2,077	2,678
Profit for the year**	CZK millions	3,369	7,893	11,062	3,133	7,363	10,882
Profit for the year-to-sales ratio	% of sales	2.1	4.2	5.4	2.0	4.1	5.7

Balance Sheet/Financing

		Škoda Auto Group			ŠKODA AUTO a.s.		
		2004	2005	2006	2004	2005	2006
Non-current assets	CZK millions	55,858	55,424	54,070	55,792	55,023	53,714
Current assets	CZK millions	40,343	34,331	51,142	32,414	28,956	43,721
Of which: Lendings	CZK millions	8,600	11,200	23,950	8,600	11,200	23,950
Equity**	CZK millions	43,923	46,757	58,321	44,147	46,483	58,007
Non-current and current liabilities	CZK millions	52,278	42,998	46,891	44,059	37,496	39,428
Of which: Nominal value of bonds	CZK millions	10,000	5,000	5,000	10,000	5,000	5,000
Assets	CZK millions	96,201	89,755	105,212	88,206	83,979	97,435
Net liquidity	CZK millions	(2,631)	4,911	21,157	414	6,070	19,352
Cash flow from operating activities	CZK millions	26,794	23,550	27,420	23,164	21,421	24,220
Cash flow from investing activities	CZK millions	(9,752)	(11,566)	(11,090)	(9,957)	(11,299)	(10,927)
Investment ratio	%	4.6	4.7	4.1	4.8	4.8	4.3
Equity ratio	%	45.7	52.1	55.4	50.0	55.4	59.5
Equity-to-fixed assets ratio	%	78.6	84.4	107.9	79.1	84.5	108.0

* The financial statements compiled according to International Financial Reporting Standards (IFRS) are not comparable with the figures according to Czech Accounting Standards (CAS).

** Consolidated figures, minority shares included.

LIST OF NON-CONSOLIDATED CAPITAL HOLDINGS OF ŠKODA AUTO a.s.

ŠKODA AUTO a.s.

AutoVize s.r.o.*

Mladá Boleslav, Czech Republic
Škoda Auto stake: 100%
Principal businesses: intermediary activity, property letting and facility management.

ŠKODA AUTO BH d.o.o.**

Sarajevo-Vogošća,
Bosnia and Herzegovina
Škoda Auto stake: 100%
Principal businesses: purchase (including import) and sale of vehicles, spare parts, and accessories.

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.

* AutoVize s.r.o. entered liquidation as of 1 January 2007.

** ŠKODA AUTO BH d.o.o. entered liquidation as of 5 October 2006.

EVENTS ANTICIPATED IN 2007

January 2007

- Škoda Octavia Scout to begin series production

June 2007

- Brno Motor Show

February 2007

- Annual Škoda Auto press conference and publication of 2006 Annual Report
- Launch of Škoda Octavia Scout and Škoda Roomster Scout

July 2007

- Škoda Auto to be main sponsor of the Tour de France
- Publication of the half-year report of the Škoda Auto consolidation group, according to IFRS

March 2007

- Geneva Motorshow – world premiere of Škoda Fabia successor vehicle
- Launch of Škoda Fabia successor vehicle
- Škoda Fabia Praktik to begin series production

September 2007

- IAA Frankfurt Motor Show – world premiere of Škoda Fabia Combi successor vehicle

April 2007

- Publication of interim report as of 31 March 2007 for the Škoda Auto consolidation group, according to IFRS

October 2007

- Publication of interim report as of 30 September 2007 for the Škoda Auto consolidation group, according to IFRS
- Opening of Na Karmeli Education Centre

May 2007

- Škoda Auto to be main sponsor of the Ice Hockey World Championship in Russia
- Škoda Auto to be main sponsor of the Giro d'Italia

November 2007

- Extension audit for compliance with EN ISO 9001:2000 (Quality Management System) and EN ISO 14001:2004 (Environmental Management System) with issuance of new certificates valid until 2010

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www.skoda-auto.cz

www.skoda-auto.com

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