SIMPLY CLEVER

ŠkodaAuto ANNUAL REPORT 2005

Exports of Škoda Auto in 2005 totalled CZK 152.8 billion, accounting for 8.2% of the total exports of the Czech Republic.

In 2005, Škoda Auto set a new record in the number of vehicles supplied to customers. According to a customer satisfaction survey, the Škoda brand is one of the five best automotive manufacturers in Europe.


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CZ 4S5 4437

ŠkodaAuto Deutschland GmbH

Skoda Auto Polska S.A.

Škoda Auto operates
in nearly 90 countries
all over the globe.
In 2005, we supplied
492,111 cars
to customers
worldwide.

ŠKODA AUTO a.s.

ŠKODA AUTO Slovensko, s.r.o.

Skoda Auto India Private Ltd.

Contents

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Selected Figures According to IFRS

		Škoda Auto Group		ŠKODA AUTO a.s.	
		2004	2005	2004	2005
Volume Data					
Deliveries to customers	vehicles	451,675	492,111	451,675	492,111
Sales*	vehicles	444,458	498,467	441,820	493,119
Production*	vehicles	443,868	494,127	444,121	494,637
Number of employees as at 31 December	persons	25,225	26,742	24,561	26,014
of which: temporary	persons	3,664	3,460	3,664	3,460
Profit and Loss Account					
Sales	CZK millions	163,665	187,382	155,396	177,822
Gross profit	CZK millions	19,297	23,644	14,400	18,635
	% of sales	11.8	12.6	9.3	10.5
Operating profit	CZK millions	5,895	10,860	5,289	10,004
	% of sales	3.6	5.8	3.4	5.6
Profit before income tax	CZK millions	4,843	10,073	4,424	9,440
Profit before income tax-to-sales ratio	% of sales	3.0	5.4	2.8	5.3
Profit for the year**	CZK millions	3,369	7,893	3,133	7,363
Profit for the year-to-sales ratio	% of sales	2.1	4.2	2.0	4.1
Balance Sheet/Financing					
Fixed assets	CZK millions	55,858	55,424	55,792	55,023
Current assets	CZK millions	40,343	34,331	32,414	28,956
of which: lendings	CZK millions	8,600	11,200	8,600	11,200
Equity	CZK millions	43,923	46,757	44,147	46,483
Non-current liabilities	CZK millions	12,051	12,837	11,336	11,685
of which: nominal value of bonds	CZK millions	5,000	5,000	5,000	5,000
Current liabilities	CZK millions	40,227	30,161	32,723	25,811
of which: nominal value of bonds	CZK millions	5,000	0	5,000	0
Total assets	CZK millions	96,201	89,755	88,206	83,979
Gross cash flow	CZK millions	17,052	20,365	16,623	19,850
Cash flow from operating activities	CZK millions	26,794	23,550	23,164	21,421
Cash flow from investing activities	CZK millions	9,752	11,566	9,957	11,299
Investment ratio	%	4.6	4.7	4.8	4.8
Gross liquidity	CZK millions	15,073	12,376	13.134	11,958
Net liquidity	CZK millions	(2,631)	4,911	414	6,070
Equity ratio	%	45.7	52.1	50.0	55.4
Equity-to-fixed assets ratio	%	78.6	84.4	79.1	84.5

* In conjunction with Škoda Auto's overseas expansion via CKD (Completely Knocked Down) kit assembly projects and to ensure correct reporting of production and sales volumes, it was decided in the past to include these CKD kits in the vehicles segment for reporting purposes, and that decision remains in effect.

** The figure for the consolidated group is net of minority shares.

Milestones in 2005

January
- Škoda Octavia wins 2005 “Car of the Year” award in the Czech Republic and Finland
- “*What Car?*” magazine designates Škoda Octavia Ambiente 1.6 FSI as the best small family car of 2005
- Grand opening of expanded Škoda Auto logistics centre for original parts and accessories in Mladá Boleslav

February
- Annual Škoda Auto press conference held, 2004 Annual Report released

March
- 1,000,000th MQ200 gearbox rolls off the production line
- Škoda Superb is named 2005 “Car of the Year” in India
- Škoda Octavia places second in the prestigious Auto 1 survey organised by titles from the group belonging to Europe’s best-selling motoring magazine, “Auto Bild”

April
- Škoda Octavia Combi wins National Design Prize 2005
- Škoda Auto is partner of both the Czech Philharmonic and the National Theatre
- Škoda Auto releases interim financial statements as at 31 March 2005 according to IFRS

May
- Škoda Auto was rated the UK market number two for quality and customer satisfaction by the J.D.Power Report
- Škoda Auto named the main sponsor of the World Ice Hockey Championship in Austria

June
- Škoda Octavia Combi is the “Prettiest Car of the Year” in the Czech Republic
- Škoda Auto is official partner of the Tour de France
- Assembly of Superbs begins in Bosnia and Herzegovina
- On the occasion of the 100th anniversary of automotive production and the 110th anniversary of the Company’s establishment, an open house is held (June 18th). Nearly 50,000 visitors take advantage of the event to tour the state-of-the-art plant and historic motor vehicles exhibit

July
- Assembly plant in Solomonovo, Ukraine, begins making the new Octavia model
- Škoda European Tour (July 6 – August 14), in which historical vehicles put on over 5,000 km touring the major cities of Europe. The European tour was organised by Škoda Auto to commemorate the 100th anniversary of the first automobile produced in Mladá Boleslav
- Škoda Auto 2005 Half-Year Report released, with consolidated figures according to IFRS

August
- Assembly plant in Ust-Kamenogorsk, Kazakhstan, begins series assembly of Octavia Tour

September
- Assembly plant in Bosnia and Herzegovina begins assembling the new Octavia model
- Company website takes first place in “AUTO MOTO” category for the Czech Republic in the WEB TOP 100 competition
- Škoda Auto is a partner of the 2005 UCI (Union Cycliste Internationale) Road World Championships in Spain

October

- Sports Octavia RS enters series production
- On 26 October 2005, the face value of the CZK 5 billion five-year bond issue (ISIN CZ 0003501207) is repaid in accordance with the issue terms
- Škoda Auto releases interim consolidated financial statements as at 30 September 2005 according to IFRS
- India plant in Aurangabad begins assembling Superbs

November

- 1 November 2005: production of 5,000,000th vehicle since 1991, the year when VOLKSWAGEN AG first took a stake in ŠKODA AUTO a.s.
- Assembly of new Octavia begins in Aurangabad, India. President of the Czech Republic, Václav Klaus, attends the new assembly hall's opening ceremony

December

- 12 December 2005: a gala concert of the Czech Philharmonic is held in the Spanish Hall of Prague Castle to commemmorate 100 years since the Company's first automobile was produced and the 110th anniversary of the Company's establishment
- First place in "Auto Trophy" competition for the best imported car in Germany


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Letter from the Chairman

Ladies and Gentlemen,

In the history of the human race, one hundred years is a mere blip. In the history of industry, and the automotive industry in particular, this span of time takes on a completely different dimension, becoming a jubilee that only a select few companies can boast. In 2005, Škoda Auto celebrated such a jubilee. For everyone connected with the Company, it is not only a reason to be proud. It is a commitment for the future as well.

Since 1905, when Václav Laurin and Václav Klement began manufacturing automobiles in Mladá Boleslav, up until today, the parent company Škoda Auto and its subsidiaries have undergone a number of changes that are readily apparent from taking a glance at the Company's key figures. A level of 492,111 vehicles were supplied to customers, up 9% from 2004 and the best result in Company history. Total consolidated sales revenues reached CZK 187.4 billion and profit after income tax was CZK 7.9 billion – both are records never before matched in Company history.

Škoda Auto became an active, highly visible player not just in the domestic economy. Our international operations contributed substantially to the pace of growth of the industry as a whole in a number of other countries as well. Škoda Auto exports in 2005 totalled CZK 152.8 billion and our share of the Czech Republic's overall exports reached 8.2%. This performance further reinforced Škoda Auto's position as the number-one exporter in the Czech Republic market.

These figures were achieved despite ever-intensifying external factors. High oil prices, which affect the prices of all our inputs either directly or indirectly, heavier competitive pressure from Asian manufacturers, foreign currency risks – these are just some of the principal factors impacting all players in the automotive industry. At the same time, these circumstances also present opportunities that Škoda Auto has embraced and is utilising to the Company's benefit.

For a company to successfully market its products these days, it must meet a whole range of customer expectations both in terms of the products themselves and services offered. Being close to the customer is a pre-condition for success. Škoda Auto is currently active in nearly 90 countries the world over and in 2005 significant steps were made to ramp up our activities in the markets of China and Kazakhstan. This has positive ramifications for the Company not only in the form of access to new markets, but also through the leveraging of synergies and cost advantages from new suppliers.

2005 also saw a further expansion of the product portfolio. Visitors to the Geneva Motor Show could check out the Yeti concept car and, at the IAA in Frankfurt, the pick-up version of the same was unveiled along with the limousine and combi versions of the Octavia RS. The response from customers and the industry as a whole gives us confidence that these were steps in the right direction. This is further proven by awards we received, the most significant being “2005 Car of the Year” awards for the new Octavia in the Czech Republic, Finland, India, and Bosnia and Herzegovina.

An important milestone on the way towards expanding the product range in 2006 will be the unveiling of the new model line Roomster at the next Geneva Motor Show, followed by market launch. All activities necessary to reach this goal have already been set in motion.

During 2005 we invested, among other areas, in further development of our principal processes. In cooperation with the Ministry of Finance of the Czech Republic, regional and local government agencies and the CzechInvest agency, we commenced investments totalling CZK 6.3 billion to expand the manufacturing plant in Kvasiny. In conjunction with this project, 2,150 new jobs are going to be created. Another project is a CZK 1.2 billion investment in developing the Česana Technology Centre, which will create 370 job opportunities for highly qualified engineers and development specialists with automotive industry expertise.

In order to meet our market and financial objectives, the focus of our activities in 2006 and future years will be on implementing the long-term strategy for renewing and expanding the product line as well as the targeted region supply strategy based on development of new and existing assembly plants in local markets.

On behalf of the Board of Directors of Škoda Auto, I would like to thank all our customers for their decision to buy our products and for their loyalty to the Škoda brand. On the occasion of the 100th jubilee, I would also like to thank our employees, business partners and suppliers for the major contributions they continue to make in support of the successful development of our brand.

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

Board of Directors and Supervisory Board, Changes in Statutory Bodies

Board of Directors

Dipl. Kfm. Detlef Wittig (*1942)
Chairman since 1 October 2004
Graduated in Business Administration from the University of Göttingen. Starting in 1968, he worked for VOLKSWAGEN AG 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 AG. In early 1987 he transferred to Volkswagen Canada Inc., where his first position was Vice President Sales and Marketing; in 1988 he was appointed Chairman of the Board of Directors. In 1989–95 he was back in the management of VOLKSWAGEN AG as Head of Sales for the Volkswagen Brand. He 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.-Ökonom Fred Kappler (*1958)
Sales and Marketing
Member since 1 January 2004
Graduate of business sciences studies at the Braunschweig Technical University and the University of Hannover. Joined VOLKSWAGEN AG 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 a.s. with responsibility for Sales and Marketing.

The following were newly appointed to the Board of Directors:

Horst Mühl (*1947)
Production and Logistics
Member since 1 January 2005
Joined VOLKSWAGEN AG 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 a.s. responsible for production and logistics.

Dr.-Ing. Harald Ludanek (*1958)
Technical Development
Member 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 AG, where he worked in the departments focused on special drive and gearbox systems. In 1996 he transferred to VOLKSWAGEN AG 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 Board of Directors and from 2000 he took over management of the VOLKSWAGEN AG 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.

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

Dipl. Ing. Holger Kintscher (*1960)
Commercial Affairs
Member since 1 September 2005
A graduate of the Lippe Institute of Technology, specialization in production techniques. Starting in 1987 he worked for VOLKSWAGEN AG 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 AG 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.

The following resigned from the Board of Directors:

Dipl. Ing. Winfried Vahland (*1957)
Commercial Affairs
Vice Chairman
1 August 2002[1] - 30 June 2005[2]

Dr. Helmuth Schuster (*1954)
Human Resources
Member
1 January 2001[1] - 15 June 2005[2]

[1] Date indicates beginning of membership in the relevant body.
[2] Date indicates end of membership in the relevant body.

Supervisory Board

Dr. h. c. Ing. Vratislav Kulhánek (*1943)
Chairman
1 October 2004[1]

Dr. rer. pol. Carl H. Hahn (*1926)
Honourable Chairman, Former Chairman of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
16 April 1991[1]

Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch (*1951)
Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
1 January 2004[1]

Ing. Václav Petříček (*1944)
Deputy Minister of Industry and Trade of the Czech Republic, Prague
1 February 1996[1]

Ing. Jan Miller (*1948)
Secretary of the Labour Union branch, OS KOVO ŠKODA AUTO a.s., Mladá Boleslav,
16 April 1993[1]

Jaroslav Povšík (*1955)
Chairman of the Labour Union branch, OS KOVO ŠKODA AUTO a.s., Mladá Boleslav,
16 April 1993[1]

Ing. Jan Uhlíř (*1944)
OS KOVO, Prague,
11 July 1994[1]

The following were appointed to the Supervisory Board:

Dr. rer. pol. Wolfgang Bernhard (*1960)
Vice Chairman since 10 February 2005
Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
1 February 2005[1]

Reinhard Jung (*1951)
Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
1 July 2005[1]

The following resigned from the Supervisory Board:

Dr. jur. Jens Neumann (*1945)
Vice Chairman, Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
16 April 1993[1] – 31 December 2004[2]

Prof. Dr.-Ing. h. c. mult. Folker Weißgerber (*1941)
Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
1 January 2002[1] – 30 June 2005[2]

Dr. rer. pol. h. c. Peter Hartz (*1941)
Member of the Board of Directors of VOLKSWAGEN AG, Wolfsburg,
19 December 1994[1] – 5 August 2005[2]

[1] Date indicates beginning of membership in the relevant body.
[2] Date indicates end of membership in the relevant body.

Report of the Supervisory Board

During the past fiscal year, the Supervisory Board was kept regularly and thoroughly 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.

Financial 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 14 February 2005, 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 2005.

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 2005. At its meeting held on 10 February 2006, the Supervisory Board discussed the financial results and accepted the proposal of the Board of Directors regarding the allocation of profit of annual financial statements of Škoda Auto according to IFRS. The Supervisory Board authorised the Board of Directors to submit the 2005 financial statements to the sole shareholder, VOLKSWAGEN AG, for approval.

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


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Report on the Operations of ŠKODA AUTO a.s. and Škoda Auto Group

Profile of ŠKODA AUTO a.s. and Škoda Auto Group

Whence We Come

Only a very small number of the world's automobile manufacturers can boast an unbroken tradition of motor vehicle production spanning a period of one hundred years. Škoda Auto is one of them, and its history makes it one of the oldest companies in the world automotive industry. 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 concern 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 were revolutionary at that time.
1939–1945 During the war years, the factory focuses on producing materials for the military. Just a few days before the war ended, 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 AG. Škoda becomes the Volkswagen Group's fourth brand.

Where We Stand

Škoda Auto develops, manufactures, and offers high-quality, environmentally-friendly cars, original spare parts, accessories, and services whose features satisfy customer wishes. The goal of Škoda Auto is to thrill customers so that they keep coming back to the Škoda brand with trust and favour.

Škoda Auto

- one-hundred-percent owned by VOLKSWAGEN AG;
- has operations in nearly 90 countries all over the world, in which the Group as a whole supplied 492,111 vehicles to customers, 82% of which was within the European Union;
- is the country's largest exporter, accounting for 8.2% of the Czech Republic's total exports;
- in 2005, the Company took major steps to strengthen its positions in the promising markets of China and Kazakhstan;
- in terms of sales, Škoda Auto is the number-three company within the ten new European Union Member States;
- Group assets reached CZK 89.8 billion, total sales revenues stood at CZK 187.4 billion, and the 2005 profit after income tax was CZK 7.9 billion;
- has major equity stakes in corporations in the Czech Republic as well as abroad;
- its manufacturing plants in the Czech Republic are located in Mladá Boleslav, Kvasiny and Vrchlabí;
- at the international level, plants that produce Škoda cars are located in India, Ukraine, Bosnia and Herzegovina, and Kazakhstan;
- the Group has a total of 26,742 employees, 728 of which work for foreign companies.

Changes since 2005 and the Consolidated Group

As of the beginning of 2005, a number of legislative changes took effect in the Czech Republic, relating to a large extent to the country's entry into the European Union. One of these now requires corporations that are issuers of registered securities traded in a public securities market to keep accounts and carry out reporting in accordance with International Financial Reporting Standards (IFRS) as of 1 January 2005 and, at the same time, to compile and release consolidated and separate financial statements according to IFRS for the first time as of 31 December 2005. As an issuer of bonds, ŠKODA AUTO a.s. is subject to this requirement.

The consolidated group of ŠKODA AUTO a.s. (further "Group") consists of the parent 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.

Aside from Skoda Auto India Private Ltd., which not only imports, but also manufactures and assembles vehicles, all of these subsidiaries are exclusively importers. The ownership participations are listed on page 144.

Where We are Headed

Markets
In the years to come, Škoda Auto's priority will be to reinforce our positions in Western European markets while at the same time retaining our dominant position in Central & Eastern Europe. Along the way, we will engage continuously to intensify our activities in promising Asian markets.

Finance
In the financial area, we will continue in the already established activities designed to further improve the efficiency and quality of Company processes with an emphasis on overall rationalisation of all operations. Costs, and especially raw materials costs, will be given particularly close scrutiny.

Products
We will continue to develop the product portfolio and its emotional charge. In 2006, the current product range will be expanded with the addition of a fourth model line – Roomster. In later years, we anticipate further differentiation of the product range to accommodate the needs of new markets.

Quality
The quality of all products will continue to be one of the top priorities. Independent studies give Škoda Auto very good placements in the areas of functional quality, frequency of customer complaints and overall customer satisfaction. In the future, our initiatives will focus primarily on mid- and long-term satisfaction with quality.

Human Resources
Škoda Auto is aware of the value of its employees and their importance for the Company. Therefore, emphasis will be placed primarily on their ongoing development. A clear signal in this area is the laying of the cornerstone of a new university campus, Na Karmeli, the Company's participation in a number of education projects and, last but not least, cooperation with other universities and institutes of higher education.

The Environment
Škoda Auto is constantly endeavouring to take the most responsible approach possible to protecting the environment. This is confirmed not only by certifications – such as the ISO 14001 Environmental Management System certificate – but, most of all, by direct investments in environmental projects, which reached a level of CZK 350 million in 2005, as well as participation in a number of activities with environmental significance, including commenting on legislative amendments prepared in conjunction with the Czech Republic's accession to the European Union.

Social Responsibility
In all aspects of its business activities and all the decisions it makes, Škoda Auto is aware of its responsibility toward customers, employees, shareholders, business partners, government institutions, the public, and the environment. These corporate factors and various group interests must be actively influenced to keep them in balance, to ensure that future generations have at least the same, or better, prospects for development. All of these factors are crucial for achieving sustainable development.

Development of the Czech Economy

The Czech economy picked up steam in 2005. In the second quarter, year-on-year economic growth reached 5.1%, the highest level since 1996. Economic growth in the Eurozone in the same period was only 1.2%.

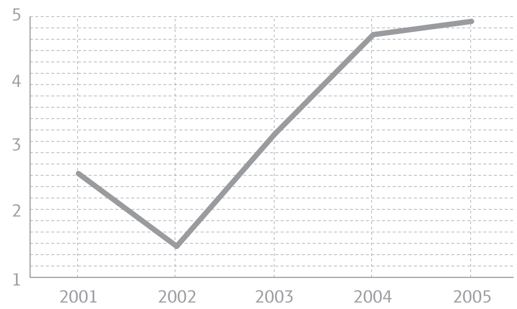
Like in the previous year, foreign trade was the biggest driver of growth in the Gross Domestic Product. Even more significantly, net export's contribution to GDP in 2005 was greater than ever before seen in the Czech economy. Both capital spending and domestic demand grew at a slower rate. The overall GDP growth for the entire year 2005 was 4.9%*.

Industrial production in 2005 was up 5.7%*, while construction increased by 4.1%*. The largest drivers of growth in industry were automobiles and oil refineries. Favourable development of labour productivity and growing export capacity, especially in companies with foreign equity participation, made it possible for Czech-made products to sell well in demanding Western markets even at a time when the economies of Eurozone countries are seeing only slight recovery.

For most of 2005, the inflation rate was below 2%. Fuel prices grew substantially in early September, and the year-on-year growth in these prices was the highest in the past five years. As a result of long-term growth in oil prices, October brought a considerable rise in regulated natural gas prices. In December 2005, the inflation rate reached a year-on-year level of 1.9%.

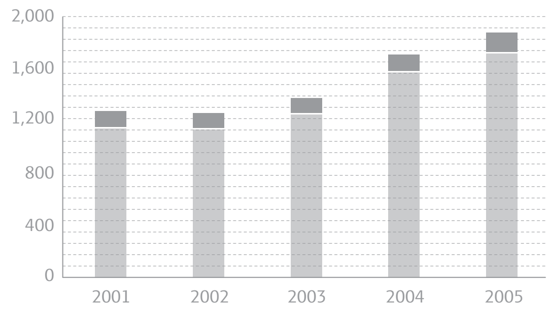
One of the positive factors that impacted inflation in 2005 was the ongoing strength of the Czech currency; the Crown strenghtened by 4.6% against the Euro year-on-year.

Czech Republic GDP, 2001 – 2005 (%)*



* estimate

Škoda Auto Share in Czech Exports, 2001 – 2005 (CZK billions)



Škoda Auto share

The Czech National Bank changed its two-week repo rate a total of four times during the year. In April 2005, the repo rate fell to 1.75%, its lowest level in history.

The brisk pace of economic growth had a positive impact on the labour market, which saw a slight fall in the unemployment rate. The construction sector was a major contributor to the fall in overall unemployment. However, structural unemployment has remained practically unchanged for six years running. In December 2005, the unemployment rate reached 8.9%.

2005 saw continued positive development in the foreign trade balance. From January to July 2005 there was a surplus, and the first deficit appeared in August. Even so, the August foreign trade balance was the best since 1993. For the first time in history, the Czech Republic's foreign trade balance for the entire year was a surplus: CZK 41.9 billion, an improvement of CZK 68.3 billion compared to 2004. The biggest factors driving the improvement in the overall balance were trade of machinery and transportation technology. The good development in foreign trade can be attributed to increased export capacity and slower growth in domestic demand.

The biggest exporter in the Czech Republic is again Škoda Auto. Its exports in 2005 reached CZK 152.8 billion, giving the Company a 8.2% share in the Czech Republic's total exports.

Financial Situation of the Škoda Auto Group

In 2005, the strength of the Group's successful model, strong sales, sound financial strategies and the achievement of objectives set for the year in the Volkswagen Group-wide ForMotion programme allowed it to move out of the stabilisation phase and begin implementing an expansionary policy. As a result, the figures posted in 2005 surpassed the already record results of 2004 (by a substantial margin). Nearly all financial indicators continued to grow. Sales rose by nearly 14.5% to CZK 187.4 billion, passing EUR 6 billion for the first time. The operating profit results increased by 84.2% to CZK 10.9 billion and profit before income tax reached a new record level of CZK 10.1 billion; a 108% increase over the comparable period of 2004. Assets remained slightly below the previous year's level. The first bond issue (CZK 5 billion) was repaid. The entire Group retired its remaining debt and increased its net liquidity, cash flow from operating activities and net cash flow. All of this advanced the Group even further towards fulfilling its ambitious mid- and long-term goals.

Balance Sheet and Financing

At CZK 89.8 billion, the year-end total assets figure was down CZK 6.4 billion from its 31 December 2004 level (CZK 96.2 billion). Despite an overall increase in capital expenditure in 2005, fixed assets fell from CZK 55.9 billion in the previous period to CZK 55.4 billion today. This was due most significantly to the fact that additions to tangible and intangible fixed assets amounted to less than the depreciation charge on existing assets. Thanks to optimised logistical processes, the Group substantially reduced its inventories compared to 31 December 2004, cutting it by 11.4% to CZK 12.3 billion. In 2005, the Group continued to put its surplus cash to work by providing CZK 11.2 billion in interest-bearing short-term loans to other members of the Volkswagen Group (31 December 2004: CZK 8.6 billion). When adjusted for these loans, the current receivables figure was reduced further, despite growth in car sales, to CZK 9.7 billion compared to CZK 11.4 billion in 2004. A CZK 4.5 billion dividend was paid to the sole shareholder, VOLKSWAGEN AG, in 2005. Even so, equity as at 31 December 2005 was up CZK 2.9 billion, due mostly to the profit for the year strength. The overall level of non-current liabilities was down CZK 10.1 billion compared to 2004, due mainly to the retirement of a five-year, CZK 5 billion bond issue.

Consolidated Financial Ratios – Škoda Auto Group

	2004	2005
Operating profit (% of sales)	3.6%	5.8%
Profit before income tax-to-sales ratio	3.0%	5.4%
Profit for the year-to-sales ratio	2.1%	4.2%
Equity ratio	45.7%	52.1%
Cash flow from operating activities (% of sales)	16.4%	12.6%
Investment ratio (% of sales)	4.6%	4.7%

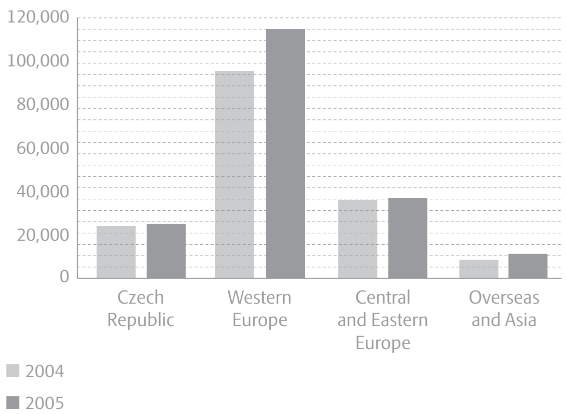
Capital expenditures totalled CZK 8.8 billion in 2005. Overall capital spending was CZK 1.3 billion (+16.9%) higher than in 2004 to provide for new products that are entering production. The bulk of this amount (CZK 5.7 billion) went to product investments in general, and in particular to the new Roomster model line. CZK 0.7 billion was invested in plant renewal and new infrastructure during the period.

The ongoing positive development in all major balance sheets and profit indicators was also reflected in improved operating cash flow, net cash flow and net liquidity. Gross cash flow, at CZK 20.4 billion, was again sufficient to cover investing activities needs. Net liquidity increased by CZK 7.5 billion to CZK 4.9 billion (down CZK 2.6 billion from 31 December 2004).

Profits

Group sales revenues mirrored the successful development in sales of Škoda brand cars in world markets, reaching a total of CZK 187.4 billion for the entire year 2005, up 14.5% from 2004. A major driver of this growth was higher customer demand for more valuable cars with more features. This is one of the further positive developments we are seeing as Škoda-brand vehicles, thanks to their quality, price and value for money, are gaining the favour and trust of more demanding customers. The overall sales revenue figure can be broken down as follows: cars – 87.9%, original spare parts and accessories – 6.8%, supplies of parts to other Volkswagen Group companies – 3.6%, while the remaining 1.7% consisted of revenues from sales of other goods and services. Costs linked to revenues totalled CZK 163.7 billion (up CZK 19.4 billion). Contributing to this were primarily materials costs, which were influenced by a shift in the product mix (i.e. the percentage of higher-priced cars) as well as to worldwide growth in commodity prices, especially steel and oil. A programme focused on improving performance made it possible to optimise the costs of products, goods and services sold, and the ratio of these costs to overall revenues improved to 87.4% (2004: 88.2%). As a result, gross profit grew from CZK 19.3 billion to CZK 23.6 billion (+22.5%).

Sales revenues by region (CZK millions)



Distribution expenses, at CZK 10.6 billion, rose only slightly (due primarily to higher depreciation charges). The ratio of these costs to overall sales revenues decreased to 5.7%. Administrative expenses, at CZK 3.7 billion, also increased only slightly. A CZK 1.1 billion improvement, to CZK 1.5 million, was also achieved in the other operating costs and revenues (net) thanks to a variety of factors, e.g. a positive result from foreign currency hedging deals as well as unrealised and realised foreign currency differences in receivables and liabilities.

Thanks to the factors outlined above and the ongoing fulfilment of targets and implementation of optimising measures set forth in the Volkswagen Group-wide ForMotion programme, the operating profit result was improved to CZK 10.9 billion, 84.2% over the comparable period (CZK 5.9 billion). The financial result in 2005 also continued along a positive trajectory, closing the year at CZK –0.8 billion, a 25.2% improvement over the figure for the same period of 2004 (CZK –1.1 billion). The biggest contributors to this improvement were higher interest on lendings, lower factoring costs, and lower interest costs thanks to the retirement of the 1st tranche of bonds (CZK 5 billion) as of 26 October 2005.

Thus, the new record profit before income tax of the Group in 2005, at CZK 10.1 billion, is substantially higher than the 2004 result (CZK 4.8 billion). This 108% improvement implies 5.4% growth in the profit before income tax-to-sales ratio, compared to 3.0% in 2004. After deducting CZK 2.2 billion in income taxes/expenses current and deferred (up CZK 0.7 billion from 2004), the overall profit for the year was CZK 7.9 billion, i.e. an improvement of 134.3% (2004: CZK 3.4 billion).

Škoda Auto Group

Balance sheet		31. 12. 2004	%	31. 12. 2005	%
Non-current assets	CZK millions	55,858	58.1	55,424	61.8
Current assets	CZK millions	40,343	41.9	34,331	38.2
of which: lendings	CZK millions	8,600	8.9	11,200	12.5
Total assets	**CZK millions**	**96,201**	**100.0**	**89,755**	**100.0**
Equity	CZK millions	43,923	45.7	46,757	52.1
Non-current liabilities	CZK millions	12,051	12.5	12,837	14.3
of which: nominal value of bonds	CZK millions	5,000	5.2	5,000	5.6
Current liabilities	CZK millions	40,227	41.8	30,161	33.6
of which: nominal value of bonds	CZK millions	5,000	5.2	0	–
Total liabilities	**CZK millions**	**96,201**	**100.0**	**89,755**	**100.0**

Škoda Auto Group

Profit and loss account		2004	%	2005	%
Sales	**CZK millions**	**163,665**	**100.0**	**187,382**	**100.0**
Cost of goods, sold	CZK millions	144,368	88.2	163,738	87.4
Gross profit	**CZK millions**	**19,297**	**11.8**	**23,644**	**12.6**
Distribution expenses	CZK millions	10,278	6.3	10,611	5.7
Administrative expenses	CZK millions	3,513	2.1	3,676	2.0
Other operating income	CZK millions	3,514	2.1	4,027	2.2
Other operating expenses	CZK millions	3,125	1.9	2,524	1.3
Operating profit	**CZK millions**	**5,895**	**3.6**	**10,860**	**5.8**
Financial result	CZK millions	(1,052)	(0.6)	(787)	(0.4)
Profit before income tax	**CZK millions**	**4,843**	**3.0**	**10,073**	**5.4**
Income tax expense/income	CZK millions	1,474	0.9	2,180	1.2
Profit for the year (minority interest excluded)	**CZK millions**	**3,369**	**2.1**	**7,893**	**4.2**

Škoda Auto Group

Financing – development		31. 12. 2004	31. 12. 2005	%
Gross cash flow	**CZK millions**	**17,052**	**20,365**	**19.4**
Balance of cash	CZK millions	6,473	1,176	(81.8)
Balance of lendings	CZK millions	8,600	11,200	30.2
Gross liquidity	**CZK millions**	**15,073**	**12,376**	**(17.9)**
Balance of liabilities	CZK millions	(17,704)	(7,465)	57.8
of which: factoring	CZK millions	(6,440)	(1,799)	72.1
Net liquidity	**CZK millions**	**(2,631)**	**4,911**	**>100**

Financial Situation of Individual Škoda Auto Group Companies

Thanks to the sheer scale and breadth of its operations, the parent company ŠKODA AUTO a.s. represents over 90% of all Group indicators. Although subsidiaries have been developing steadily and strengthening their positions in their respective local markets (Škoda Auto Deutschland and Škoda Auto India in particular), they account for less than 10% of the Group's overall financial and volume figures.

Škoda Auto

2005 will go down in Company history as a very successful year in terms of sales, production, and financial performance. Exactly 100 years after the Company manufactured its first automobiles, the Company once again surpassed the record results of the previous year by a wide margin. Sales rose by more than 14.4% to CZK 177.8 billion. The operating profit reached CZK 10.0 billion (an improvement of 89.2%) and profit before income tax was up 113.4% to CZK 9.4 billion. Due to the retirement of half the Company's outstanding bonds for an expenditure of CZK 5 billion and the payment of stock dividends, the total assets figure remained under its 2004 level. Furthermore, the Company retired its remaining debt and increased both net liquidity and net cash flow.

Balance Sheet and Financing

At CZK 84.0 billion, the total assets figure ended up under its 31 December 2004 level (CZK 88.2 billion). Despite an overall increase in capital expenditure in 2005, fixed assets fell from CZK 55.8 billion in the previous period to CZK 55.0 billion today, due primarily to the fact that additions to tangible and intangible fixed assets amounted to less than the depreciation charges on existing assets. By optimised logistical processes, inventories were reduced substantially compared to their level at 31 December 2004 – by 8.4% to a year-end level of CZK 8.5 billion.

In 2005, the Company continued to put its surplus cash to work by providing CZK 11.2 billion in short-term interest bearing loans to its corporate parent VOLKSWAGEN AG and other members of the Volkswagen Group (2004: CZK 8.6 billion). When adjusted for these loans, non-current receivables improved further, to CZK 8.5 billion compared to CZK 10.0 billion in 2004. The Company paid its sole shareholder, VOLKSWAGEN AG, a CZK 4.5 billion dividend. Even so, equity grew by over CZK 2.4 billion to CZK 46.5 billion, due mostly to profit for the year strength. The overall non-current liabilities total was down CZK 6.9 billion compared to 2004, due mainly to the retirement of a five-year, CZK 5 billion bond issue.

Unconsolidated Financial Ratios – ŠKODA AUTO a.s.

	2004	2005
Operating profit (% of sales)	3.4%	5.6%
Profit before income tax-to-sales ratio	2.8%	5.3%
Profit for the year-to-sales ratio	2.0%	4.1%
Equity ratio	50.0%	55.4%
Cash flow from operating activities (% of sales)	14.9%	12.0%
Investment ratio (% of sales)	4.8%	4.8%

In 2005, the Company's total capital expenditures reached CZK 8.6 billion. Overall capital spending was CZK 1.1 billion (+15.4%) higher than in 2004 to provide for new products that are entering production.The bulk of this amount (CZK 5.7 billion) went to product investments in general, car and the new Roomster model line in particular. CZK 0.7 billion was invested in new infrastructure during the period.

The ongoing positive development in nearly all major balance sheet and profit indicators was also reflected in improved net cash flow and net liquidity. Net cash flow, at CZK 19.9 billion, was sufficient to cover investing activities needs. The investment quota remained unchanged at 4.8%. In 2005 ordinary CZK 1.5 billion dividend and extraordinary CZK 2.9 billion dividend were paid to the sole shareholder. This brought net liquidity to CZK 6.1 billion as of the end of 2005 (31 December 2004: CZK 414 million).

Profits

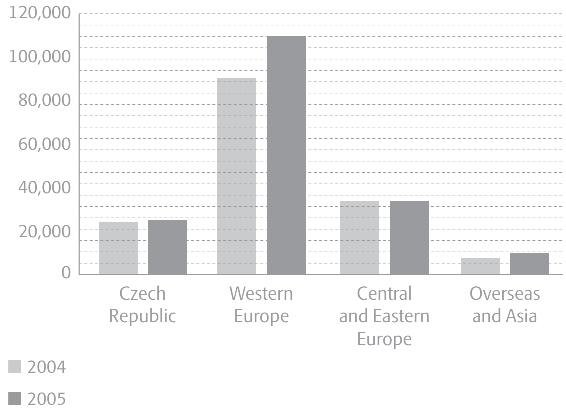
Thanks to strong worldwide sales of Škoda brand cars in 2005, Company sales grew by CZK 22.4 billion to reach CZK 177.8 billion. The factors contributing to top-line growth included primarily higher customer demand for higher added-value cars with more features, steady growth in sales of original Škoda parts and accessories and increased supplies of components to other companies in the Volkswagen concern. The overall sales figure can be broken down as follows: cars – 88.6%, original spare parts and accessories – 6.0%, supplies of components to other Volkswagen Group companies – 3.8%, while the remaining 1.6% consisted of revenues from sales of other goods and services. Higher sales volume, worldwide increased prices of raw materials (especially steel and oil) and higher depreciation charges caused the overall cost of goods sold to grow by 12.9% to CZK 159.2 billion. Thanks to measures designed to optimise expenditures for materials and other unit costs, this overall cost category actually declined, as a percentage of total sales, to 89.5% (2004: 90.7%). These factors enabled gross profit to increase from CZK 14.4 billion in 2004 to CZK 18.6 billion in 2005 (+29.4%).

Despite a slight (CZK 0.5 billion) increase in sales costs to CZK 6.6 billion, expressed as a ratio to overall revenues, these costs actually declined by 0.3% to 3.7%. Administrative expenses, at CZK 3.3 billion, remained practically flat (2004: CZK 3.2 billion).

Operating profit, at CZK 10 billion, was up over 89.2% from the comparable period of 2004 (CZK 5.3 billion). The financial result also continued to move in a positive direction, improving by 34.8% over 2004's figure (CZK –0.9 billion) to end the year at CZK –0.6 billion. The biggest contributors to this improvement were higher interest on lendings, lower factoring costs and interest on outstanding bonds.

The record profit before income tax in 2005 of CZK 9.4 billion is substantially higher than the 2004 result (CZK 4.4 billion). This represents an improvement of 113.4% bringing the profit before income tax-to-sales ratio to 5.3%, up from 2.8% in 2004. The fact that the change in due tax liability from 2004 to 2005 is not in proportion to the increase in profit before income tax was due in particular to the utilisation of newly introduced tax deductibles ensuing from shorter depreciation periods in the 1st, 2nd and 3rd depreciation groups. After deducting CZK 2.1 billion in income taxes due and deferred (up CZK 786 million from 2004), profit for the year was CZK 7.4 billion, i.e. an improvement of 135% (2004: CZK 3.1 billion).

Sales revenues by region (CZK millions)



ŠKODA AUTO a.s.

Balance sheet		**31. 12. 2004**	**%**	**31. 12. 2005**	**%**
Non-current assets	CZK millions	55,792	63.3	55,023	65.5
Current assets	CZK millions	32,414	36.7	28,956	34.5
of which: lendings	CZK millions	8,600	9.7	11,200	13.3
Total assets	**CZK millions**	**88,206**	**100.0**	**83,979**	**100.0**
Equity	CZK millions	44,147	50.0	46,483	55.4
Non-current liabilities	CZK millions	11,336	12.9	11,685	13.9
of which: nominal value of bonds	CZK millions	5,000	5.7	5,000	6.0
Current liabilities	CZK millions	32,723	37.1	25,811	30.7
of which: nominal value of bonds	CZK millions	5,000	5.7	0	–
Total liabilities	**CZK millions**	**88,206**	**100.0**	**83,979**	**100.0**

ŠKODA AUTO a.s.

Profit and loss account		**2004**	**%**	**2005**	**%**
Sales	**CZK millions**	**155,396**	**100.0**	**177,822**	**100.0**
Cost of goods, sold	CZK millions	140,996	90.7	159,187	89.5
Gross profit	**CZK millions**	**14,400**	**9.3**	**18,635**	**10.5**
Distribution expenses	CZK millions	6,137	3.9	6,558	3.7
Administrative expenses	CZK millions	3,157	2.0	3,329	1.9
Other operating income	CZK millions	3,147	2.0	3,589	2.0
Other operating expenses	CZK millions	2,964	1.9	2,817	1.3
Operating profit	**CZK millions**	**5,289**	**3.4**	**10,004**	**5.6**
Financial result	CZK millions	(865)	(0.6)	(564)	(0.3)
Profit before income tax	**CZK millions**	**4,424**	**2.8**	**9,440**	**5.3**
Income tax expense/income	CZK millions	1,291	0.8	2,077	1.2
Profit for the year	**CZK millions**	**3,133**	**2.0**	**7,363**	**4.1**

ŠKODA AUTO a.s.

Financing – development		**31. 12. 2004**	**31. 12. 2005**	**%**
Gross cash flow	**CZK millions**	**16,623**	**19,850**	**19.4**
Balance of cash and cash equivalents	CZK millions	4,534	758	(83.3)
Balance of lendings	CZK millions	8,600	11,200	30.2
Gross liquidity	**CZK millions**	**13,134**	**11,958**	**(9.0)**
Balance of liabilities	CZK millions	(12,720)	(5,888)	53.7
of which: factoring	CZK millions	(2,739)	(898)	67.2
Net liquidity	**CZK millions**	**414**	**6,070**	**>100**

Škoda Auto Deutschland

The importer Škoda Auto Deutschland has been active in the German market since 1991 and it has been a 100% subsidiary of Škoda Auto since 1995. Locally, Škoda Auto's position is very strong; throughout Germany, the Škoda brand is represented by over 480 dealers, and more than 1,200 service partners.

2005 was a very successful year for the Škoda brand in the German market. Although the overall automotive market declined slightly, to 3.3 million units, Škoda Auto managed to increase its market share by 0.3% to 2.7%. Thus, the popularity of the Škoda brand continues to rise, and is attested to by 90,103 vehicles supplied to customers (an increase of 12,052 vehicles). The market launch of the new Octavia in 2005 had an especially positive impact on total sales. The new model quickly captured the attention of new customers and sales of the new model were very strong at 36,077 units.

This positive performance was reflected commensurately in the sales and profit result of Škoda Auto Deutschland. Sales in 2005 reached a total of CZK 38.5 billion (EUR 1.292 billion), up 11.1% from the previous year. The profit before income tax totalled CZK 191.3 million (EUR 6.5 million) for an improvement of 32.5%.

Škoda Auto Deutschland managed to bring about a substantial improvement in its net liquidity, to CZK -664 million (EUR -22.9 million), an improvement of CZK 166 million compared to 2004's figure. This was made possible by optimising inventories and by implementing a policy of using factoring transactions to sell off receivables for vehicles sold.

Skoda Auto Polska

Early in 2005, our performance in the Polish market received a boost from a clearance sale of 2004 model cars. Later, however, the negative trend caused by imports of used vehicles, which has been seen since Poland's entry into the EU, again became predominant. The market was characterised by an overall atmosphere of heavy competition. Skoda Auto Polska was forced to react immediately, taking countermeasures which helped it defend and improve its position in the market. A total of 27,649 cars were sold to customers in 2005. While this represents a major decline of 12,044 units, at the same time Škoda brand became the best-selling car in the Poland market for the first time in history. The final year-end figures for Poland show that Škoda Auto sold 1,949 vehicles more than its nearest competitor.

The profit before income tax was CZK 36.5 million (PLN 4.9 million), which is CZK 28.2 million (PLN +4.6 million) less in comparison with 2004. The decline took place primarily due to increased sales support expenditures in the diminishing global market.

Thanks to full utilisation of factoring to limit receivables for vehicles sold, the year saw a major improvement in net liquidity, which reached CZK -420 million (PLN -55.9 million) at year end 2005. This is an improvement of CZK 640 million over the previous year.

Škoda Auto Slovensko

In line with the performance of the Slovak economy overall and the development of macroeconomic indicators, the market for new motor vehicles contracted slightly, compared to last year, to 57,000 vehicles sold. The flat overall market and competitive pressure determined the development of the Škoda brand's market share, which reached 36% (-4%). In 2005, Škoda Auto Slovensko sold 20,764 vehicles, which is 2,386 less than in the previous year. However, the Fabia, the Octavia and the Superb continue to be the best-selling vehicles in the market.

An increase in sales support expenditures to address the higher competition caused a profit before income tax of CZK 13.1 million (SKK 18.5 million).

In view of the stated goal for 2005 to improve net liquidity, optimising measures were put in place with greater emphasis on managing sales to meet market demand and customer needs. This led to optimising of individual deliveries to dealers, as well as of dealer inventories. The implementation of these measures resulted in an CZK 720 million improvement in net liquidity compared to 2004 and the final figure for the year was CZK -210 million (SKK -273.8 million). Škoda Auto Slovensko also succeeded in bringing about a major reduction in overdue receivables in 2005, which had a further positive impact on liquidity.

Skoda Auto India

2005 was a year of aggressive expansion for Skoda Auto India. Compared to 2004, the model line-up was expanded to include the Octavia Combi, the new Octavia and the Superb. That required a further expansion of the assembly plant in Aurangabad. In November 2005, President of the Czech Republic Václav Klaus came to the plant for the new vehicle assembly line's opening ceremony.

Vehicles have been assembling in India since 2001 in Aurangabad plant, which is situated in the State of Maharashtra (since 2004 in Škoda Auto plant, which was built as a green field project). In technical terms, the plant is one of the best assembly plants in India.

Since Škoda Auto first established a presence in the Indian market in 2001, 25,000 Škoda cars have rolled off the assembly lines there. In 2005, a total of 8,710 vehicles were assembled in the Indian plant (1,660 more than in 2004) and supplies to Indian customers reached 8,951 vehicles, up 1,749 from 2004. Currently the plant, which employed 352 people at the end of 2005, has of a capacity 30,000 vehicles per year.

India is one of the emerging, high-growth markets where the Škoda brand has successfully built up a strong market position. The overall share of Škoda cars in the segment reached 24.7%. The dealer network was expanded by another 5 dealers, bringing the number of Škoda Auto sales locations in India at year-end 2005 to 41.

Škoda cars have enchanted both customers and industry circles alike in India. The Indian motoring magazine Overdrive declared the Škoda Superb the 2005 Car of the Year.

ISO 9001 and ISO 14001 certifications were another major step taken in 2005, and they contributed to the standardisation and stabilisation of systems and processes together with the parent company, Škoda Auto, as well as within the Volkswagen Group as a whole. In addition, August brought the successful implementation of SAP, the standard management system, to Škoda Auto.

Skoda Auto India's financial performance was driven primarily by internal factors, especially optimising of logistics and an appropriately chosen product strategy, as well as by favourable conditions in the Indian market. These included in particular the strength of the Rupee against the U.S. Dollar and lower customs duties. The profit before income tax of Skoda Auto India in 2005 was CZK 362 million (INR 661 million).

Škoda Auto Group Financial Risk Management

The Škoda Auto Group's business activity is associated with a wide range of financial risks, any of which could potentially impact the Company's financial situation. As part of the risk management strategy, these risks are identified, quantified, and eliminated/minimised for the purpose of preventing potential losses. Škoda Auto Group carried on risk management and timely identification of risk areas at the Group level, which includes the parent company and all subsidiaries. The risk management subject matter is reflected in all corporate processes. Individual functions and subsidiaries receive subject 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 the Board of Directors.

Škoda Auto Group distinguishes the following key areas of risk:

Risk Ensuing from Macroeconomic Factors in the Automotive Industry
Due to the character of its business, Škoda Auto Group is dependent on the state of the overall economy. Flat economic growth or recessions, especially in the region of western and central Europe, have a direct impact on consumer behaviour in the automotive sector. Since the Company 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.

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 risks. Movements in foreign exchange rates, interest rates and liquidity are hedged using standard financial hedging instruments. Detailed information on the financial risk management hedging policy, especially as it relates to the use of financial derivatives in hedging transactions, is provided in Notes to the Škoda Auto Consolidated Financial Statements in the chapter "Financial Risk Management".

Other risks threatening Company revenue streams ensue from ongoing price growth in international commodities markets. Other factors that could potentially have a negative impact on Company financial performance include additional technical R&D expenditures to comply with amended legislation, such as stricter legislative requirements for vehicle safety, fuel efficiency, 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 Company's financial position and performance. The Company carries commensurate insurance coverage of 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 of Škoda Auto Group remains essentially unchanged. The risk areas described above could endanger the financial position and performance of Škoda Auto Group. 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 Company's further existence in the foreseeable future.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Technical Development

In 2005, Škoda Auto celebrated one hundred years of automobile production. The first prototype of the Voiturette A car was completed in 1905.
Today's technologies and development processes have advanced so far since that time, that it is practically impossible to find anything that they have in common with the original manufacturing techniques. Additional rules and laws concerning, e.g., pedestrian protection material and recycling are combining with growing customer demands to force automotive manufacturers to react quickly to these changes. In 2005, discussions over draft legislation relating to solid pollutants emissions motivated Škoda Auto to develop Diesel Particulate Filters for its models and begin to offer them to customers starting in late 2005.

The Fabia, Octavia and Superb model lines are constantly being refined to ensure they comply with statutory requirements and changes in environmental protection legislation – such as the ban on heavy metals – as well as to make the cars even more attractive to customers and meet their increasing expectations.

In 2005, attention focused on development of the fourth model line – the Škoda Roomster. Series production will begin in the spring of 2006 in the Kvasiny plant and, shortly thereafter, we are planning a phased market launch. The new vehicle is to be unveiled to the global public at the Geneva Motor Show. It was three years ago that the Škoda Roomster design study was first unveiled at the IAA in Frankfurt. The positive response from the professional and lay public to that event reaffirmed us in our decision to put the new model into series production.

In 2005 a new design study was unveiled in Geneva – the Škoda YETI. This study presented a vehicle in the SUV category that features compactness, attractive design, and many clever technical features such as an integrated bike carrier in the rear door.

The second version of the YETI study with a simple yet variable roof concept was a focal point of visitor attention at the IAA in Frankfurt and showcased the design and technical skills of the engineers at Technical Development, Mladá Boleslav.

Škoda Auto Technical Development is the third biggest development centre in the Volkswagen Group. It collaborates closely within its own R&D competencies with the other Volkswagen Group development centres. In order to rise to its future assignments such as innovation of products and model lines, compliance with stricter environmental legislation and other customer requirements, Technical Development will continue to upgrade and adapt its infrastructure, technical equipment, and facilities as necessary.

2005 saw further development of the centre's own principal competency areas such as design, interior and exterior development, development of concept cars, and the comprehensive utilisation of digital and virtual techniques in the R&D process. Other key assignments in 2005 included support for series production, ongoing development of the centre's own three-cylinder engines, application of Volkswagen Group aggregates, long-term and functional testing, and development of in-house specialised electric and electronic components.

Within the existing competencies, approximately 10% of Technical Development's available capacities were used in R&D projects for other Volkswagen Group development centres. This collaboration is very important and beneficial for the continuing education of employees both in terms of language skills and their chosen profession. It also enables know-how and best-practice transfer, thereby constantly improving the technical quality of products developed.

A total of CZK 5.414 billion (2004: CZK 4.852 billion) was invested in new vehicles development, model upgrades, and studies in 2005. This represents 3% of

Škoda Auto's sales. In December 2005, the Technical Development work force numbered 1,420 employees, an increase of 91 employees from the previous year. A total of CZK 326 million was invested in upgrading and renewing testing equipment at Technical Development.

Vehicle Programme

Škoda Fabia

On the Fabia model line, in 2005, Technical Development's main areas of focus included reducing and replacing banned elements like Pb or Cr^{VI}, ongoing development of a new-generation MABS (an anti-blocking/tracking system controlled through the engine electronic control unit) for the 2007 model year and the action models that are to enter series production in 2006. In the spring of 2006, the Sedan and Combi models will be transitioned to an innovated petrol engine, the 1.4 l 59 kW MPI, which will replace the existing 1.4 l 55 kW MPI. The 1.4 l 55 kW TDI-PD diesel engine was replaced by the 1.4 l 51 kW and 59 kW TDI-PD engines in the autumn of 2005, and these engines now satisfy the EU IV emissions standard as well and will be a good fit for customer demands.

Škoda Roomster

The Škoda Roomster will become the Škoda brand's fourth model line. It exemplifies an entirely new kind of family vehicle that defies categorisation into any of the traditional car types. The Roomster is a new vehicle concept, tailored primarily to customers who are interested in sport and leisure activities. The vehicle's interior space arrangement offers many intelligent and clever solutions typical for Škoda cars. The Roomster will be offered with proven engines from Škoda Auto, such as the 1.2-litre three-cylinder, as well as Volkswagen Group engines.

Škoda Octavia

The Škoda Octavia has become a synonym for a quality motoring experience and enjoys growing popularity among customers. The car's favourable cost-performance ratio, high quality and modern technology guarantee that this model will be able to hold its own against competitors and enjoy rapid sales growth in nearly all markets around the world.

Both generations of Škoda Octavia cars, i.e. the original Octavia Tour followed by the new Octavia introduced in 2004, have become highly popular with customers, journalists, and in industry circles. A number of awards have confirmed their growing popularity with customers and the high quality of this model line.

A four-wheel drive version, the Octavia Combi 4x4, was launched in many markets in 2005. The sport version (Octavia RS) had its world premiere at the Frankfurt motor show. This Octavia model will be produced in both limousine and combi variants. Like its predecessor, the Octavia RS is characterised as a sport car that doubles as a family and travelling car, since it retains all the roominess and other functional advantages of the new Octavia. With a high-performance petrol engine (2.0-litre 147 kW Turbo FSI) combined with a six-speed manual gearbox and a sporty chassis, the car boasts exceptional driving characteristics. The engine's torque of 280 Nm is available in the range 1,800-5,000 RPM.

Diesel Particulate Filter

Today, all Škoda-brand diesel engines already comply with the strict EU IV regulation, with measured particle emissions under the lower limit of 25 mg/km. The reduction in solid-particle emissions from diesel engines was achieved by using Diesel Particulate Filters (DPF). Since late 2004/early 2005, both diesel engines offered in Octavia (1.9-litre 77 kW and 2.0-litre 103 kW) have been offered with a DPF option to reach the limit of the system. Gradually, this option will be offered on other models with diesel engines, in addition to the Octavia and the Superb. In addition, as of autumn 2005, service centres are equipped to fit all Škoda three- and four-cylinder engines with a DPF.

Škoda Superb

The Superb model is produced with new diesel engines that comply with the EU IV emissions regulations. These engines are the 1.9-litre 77 kW TDI-PD and the 2.0-litre 103 kW TDI-PD with diesel particulate filter. The engines are offered with a manual gearbox. By rolling out EU IV-compliant diesel engines, Škoda Auto Technical Development is helping to protect the environment.

Construction at Technical Development

In the next few years, Škoda Auto plans to upgrade and, as necessary, expand its Technical Development facilities. Long-term, it will lead to the creation of attractive job opportunities for young graduates and engineers.

Motorsport

In 2005, the Fabia WRC was improved by a lot of technical changes in areas such as aerodynamics, balancing suspension, durability of the 2.0-litre Turbo engine. These changes made this car competitve enough to reach 5th or 6th place, which was proven in individual races. However, the overall performance including technique, drivers and team was not high enough for success against the progress made by competitors.

The discussions about revisions to the FIA rules in the future, reduced participation by other manufacturers in 2006 and increased costs to participate in the rising number of rallies led to the decission that Škoda Auto will support private teams with the Škoda Fabia WRC car in 2006. The RedBull–Škoda team with the young driver A. Aigner and the experienced driver G. Panizzi will fight for the Manufacturer-Team-Challenge M2 in 2006 with the Fabia WRC. The Czech Rallye Team Škoda-Kopecký with the young driver Jan Kopecký will also take part as a private team in 10 rallies to gain experience for the future. Other private teams such as First Motorsport also race with the Fabia WRC. Preparations for the 2008 season will be in discussion pending the changed FIA rules. The Škoda Motorsport tradition, built up over more than 100 years, will continue into the future as Škoda supports private teams or customer motorsports.

Procurement

The Czech Crown's strength against other currencies continued to affect the competitiveness of domestic suppliers during the year. Total 2005 production-related purchasing volume was CZK 105.2 billion (2004: CZK 92.3 billion), which is 14% higher than in the previous year. The share of domestic suppliers was 63.9% of overall supplies (2004: 63.2%).

The strategic importance of local suppliers is documented by their share in supplies. The 25 biggest suppliers account for nearly one-half of overall turnover, 20 from Czech Republic, and 15 of those are from Mladá Boleslav and its environs. Supplies from domestic producers to other Volkswagen Group brands are also exhibiting steady growth.

The strategic objective of procurement activities in the Central & Eastern European region is to get the local subcontractor industry more involved in commercial relations with Škoda Auto than it has been to-date.

Thanks to cutting-edge information technologies, a growing number of suppliers are getting involved in the supplier platform and actively utilising the opportunity to bid electronically on overhead materials according to electronic catalogues. One of the most important applications of the supplier platform is on-line negotiations.

In 2005, 220 on-line negotiations (2004: 97) were held for a total value of CZK 15.3 billion (2004: CZK 6.1 billion).

Procurement activities in the year in question were dominated by the series production of new Octavia models, the Octavia Combi and the Octavia RS. Another task of procurement was to nominate suppliers and sign supply contracts in preparation for series production of the Roomster.

Production and Logistics

An absolute growth in Group's production from 443,868 vehicles produced in 2004 to 494,127 in 2005 (+11.3%), new international projects (21,458 of the total number of vehicles were produced within CKD kit assembly projects) and, last but not least, preparation for production of another model line – those are the major directions in which efforts in the Production and Logistics area were focused in 2005.

Constantly rising demand for the Octavia made it necessary to ramp up production steadily throughout the year 2005. While at the beginning of 2005, 538 vehicles were assembled per day in Mladá Boleslav and 81 vehicles per day in Vrchlabí; in December, the daily production rate was 652 vehicles in Mladá Boleslav and 170 vehicles in Vrchlabí. All told, 180,209 Octavias were produced in 2005, 52.3% (94,718) of which were Octavia models and 47.7% (85,491) were Octavia Combis. An important element that added further to the attractiveness of the model line was the unveiling of the RS version at the Frankfurt IAA in September and the subsequent launch of series production.

The Octavia Tour remains a part of the Vrchlabí production programme. The number produced per day was 258 vehicles at year-end 2005. The total number produced in the year was 66,319 vehicles. Production of the Octavia Tour will continue in the years to come as well.

In the Fabia model line, a total of 226,164 vehicles were manufactured in 2005, compared to 239,902 vehicles in 2004. This equates to a 45.8% share of the overall number of Škoda-brand vehicles produced during the year.

Superbs were produced at a rate of 94 per day in 2005. As a result, the annual production volume at the Kvasiny plant was 21,435 vehicles.

2005 saw further development of our international production plants. An assembly plant was opened in Kazakhstan (Ust-Kamenogorsk). Series production at the new plant commenced in August 2005 and by year-end the plant had produced 508 Octavia Tour vehicles. Production at the Ukraine assembly plant in Solomonovo continued successfully, and in July the plant began to assemble new Octavia vehicles. A total of 10,035 vehicles were produced in the period. The plant in Bosnia and Herzegovina (Sarajevo) assembled a total of 2,205 vehicles. As of June, the Sarajevo plant's manufacturing programme was expanded to include the Superb, and the new Octavia was added in September. 8,710 complete vehicles rolled off the assembly lines at the plant in Aurangabad, India during 2005. In November 2005, the new Octavia and Superb became the latest additions to the production and sales programme there.

Within the Volkswagen Group, Škoda Auto is already well-established as a supplier of quality engines, gearboxes and other components. Production of three-cylinder engines (1.2 l 40 kW and 1.2 l 47 kW) grew substantially in 2005 – by 47.8% compared to the previous year. The volume for the entire year was 301,796 engines, 64.7% of which were supplied within the group.

Another major success of Škoda Auto was achieved in the production of MQ200 gearboxes. A total of 407,093 gearboxes were produced, up 25.9% from 2004. 44.5% of the gearboxes were supplied to customers within the Volkswagen Group.

Car Production

	Škoda Auto Group			ŠKODA AUTO a.s.		
	2004	2005	%	2004	2005	%
Total Fabia	**239,902**	**226,164**	**(5.7)**	**239,902**	**226,164**	**(5.7)**
Fabia	124,464	115,667	(7.1)	124,464	115,667	(7.1)
Fabia Combi	97,103	94,091	(3.1)	97,103	94,091	(3.1)
Fabia Praktik	1,072	1,174	9.5	1,072	1,174	9.5
Fabia Sedan	17,263	15,232	(11.8)	17,263	15,232	(11.8)
Total Octavia	**181,067**	**246,528**	**36.2**	**181,320**	**246,927**	**36.2**
Octavia Tour	70,734	48,131	(32.0)	70,987	48,191	(32.1)
Octavia Combi Tour	51,544	18,188	(64.7)	51,544	18,224	(64.6)
Octavia	55,126	94,718	71.8	55,126	95,021	72.4
Octavia Combi	3,663	85,491	>100	3,663	85,491	>100
Superb	**22,899**	**21,435**	**(6.4)**	**22,899**	**21,546**	**(5.9)**
Total	**443,868**	**494,127**	**11.3**	**444,121**	**494,637**	**11.4**

Quality

Quality is part of all processes at Škoda Auto. The quality management system is a key component of the integrated management system, through which powers and responsibilities are clearly defined in all areas, leading to the satisfaction of customer needs and continual improvements in products, services, and processes.

In the autumn of 2005, RW TÜV ESSEN performed a follow-up audit of Škoda Auto's integrated management system. The audit confirmed that the system is in compliance with ISO international standards (ISO 9001:2000 for the quality management system and ISO 14001:2004 for the environmental management system).

The integrated management system ensures that each and every Škoda-brand vehicle is an exact duplicate of the approved prototype and that it complies with all safety-related and other regulations and laws applicable both in the Czech Republic and in international markets. This means Škoda Auto customers can be certain that the Company's products and services satisfy, to the maximum extent possible, the wishes and demands of end users and that the Company's R&D and production processes do not neglect the crucial area of environmental protection.

Customer demands concerning the quality of Škoda cars, their workmanship and problem-free functioning are already reflected in the tests, examinations and audits that are conducted at in all phases of production.

The fact that our customers are satisfied is confirmed by surveys conducted by independent institutions. For example, in 2005 Škoda-brand cars once again did well in one of the most highly respected studies, the J. D. Power Survey for the UK market, placing second in a competitive field consisting of all global car brands.

Sales of Cars, Original Spare Parts and Services

Car Sales

In 2005, the Škoda Auto Group set a new record in the number of vehicles supplied to customers, despite a decline in overall markets for new cars in Central Europe. Thanks to the ability to mount an adequate, timely response to changes in demand in the most important markets, Škoda Auto supplied a total of 492,111 vehicles to customers. According to a customer satisfaction survey, the Škoda brand is one of the five best automotive manufacturers in Europe.

Czech Republic
In the Czech Republic, which is the Škoda brand's second largest market in terms of volume (after Germany), a total of 65,166 vehicles were registered during the year (+0.8% compared to 2004). Based on this sales result and overall development of the market, the Škoda brand further increased its market share to 51% (2004: 48.5%). Škoda Auto also took a firm lead in the light truck segment in 2005.

Central Europe
Despite a more than 25% decline in the overall market (partially due to rising used car imports, especially from Western Europe), Škoda became the best selling brand in the Polish market for the first time, ending the year with a market share of nearly 12%. Also, in Hungary, the brand grew considerably in relation to 2004, selling a total of 18,130 cars. This corresponds to a market share of approximately 9%.

Eastern Europe
Škoda Auto also achieved high rates of growth in the Eastern Europe sales region, where 46,692 vehicles were supplied to customers. This performance is a 47.9% increase over 2004. In this respect, the Baltic markets, and especially Latvia (1,792 vehicles sold compared to 577 in 2004) and Lithuania (1,315 vehicles sold compared to 543 in 2004), are exhibiting above-average growth and, also importantly, potential for more growth in the future. An important factor for the further development of the Škoda brand in these markets will be to select the right retail partner and develop a sales network. Romania, a key market in Eastern Europe, is growing in importance for the Škoda brand. With 14,625 cars supplied to customers, the Škoda brand saw 91% growth over 2004 levels and took the lead position amongst import brands.

Western Europe
In Western Europe, a positive trend has been apparent since the first quarter of 2005.

The largest number of cars sold by Škoda Auto was in Germany – a total of 90,103 units (+15.4% growth compared to 2004). This confirmed Germany's place as the Škoda brand's current number-one market and Škoda's market share growth in Germany was positive (2.7%, up from 2.4% in the previous year).

In Denmark, the market share reached 6.4%, which is the highest in Western Europe. In the UK, despite poor market performance, sales increased by 11.9% compared to 2004 levels. Performance was also excellent in Ireland and the 5,300 units sold there exceeded 2004's figure by 55.2%.

In Spain, we continued the positive trend established in 2004: 21,700 vehicles supplied, up 30.7% from the previous year's level. Compared to 1.1% in 2004, the market share exhibited extraordinary growth – to 1.5% at year-end 2005.

In Austria, 16,301 vehicles were supplied to customers (4.5% more than in 2004), bringing Škoda Auto's market share in that country to 5.3% (2004: 5%). This is very good performance considering the

weakness of the market as a whole. Improvements compared to 2004 were also seen in France, Sweden, Norway, Greece, and other countries. Škoda Auto attained record sales performance (highest ever since entering the relevant market) in 27 countries.

Overseas/Asia

Supplies to the Overseas/Asia sales region in the year in question totalled 30,182 vehicles, which is up 2,558 units (+9.3%) from 2004. The leading countries in this region are India (8,951 vehicles compared to 7,202 in 2004, Egypt (2,328 vehicles compared to 1,006 in 2004), Syria (831 vehicles compared to 701 sold in the previous year) and Columbia (680 vehicles compared to 208 last year). In the G.C.C. (see glossary of terms) region, 1,550 vehicles were sold in 2005, compared to 753 sold in 2004 (+105.8%).

Sales by Model Lines

Globally, a total of 236,698 Fabia cars were supplied to customers in 2005. Compared to 2004 (-4.4%) there was a slight decline, resulting from the overall weakness of markets in Central Europe, which are traditionally key for sales of the Fabia model line. In Western Europe, on the other hand, Fabia sales once again grew compared to 2004.

In the model mix, 119,485 units were Fabia hatchbacks (-9.8% from 2004), 100,762 were Fabia Combis, Fabia Praktik included (+2.8% from the previous year), and 16,451 were Fabia Sedans (-3.4% compared to 2004).

The Octavia model line continued the positive trend established in the previous year. A total of 233,322 vehicles were supplied, i.e. 28.4% more than in 2004. Of this number, 163,521 units were new Octavias. The Octavia Tour continued to be very popular among customers, with 69,801 units supplied.

In the upper middle segment, which includes the Superb, customers were supplied with a total of 22,091 cars, a result that is roughly in line with 2004's performance.

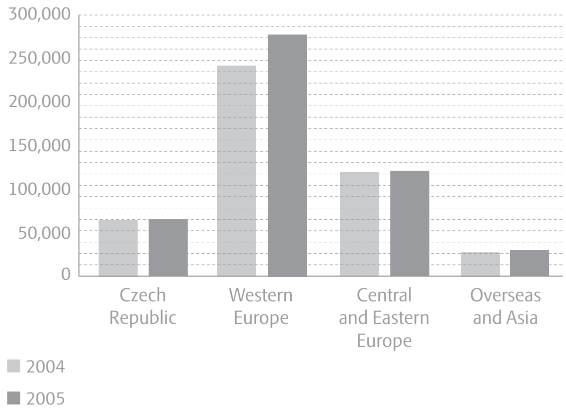
Vehicle Customer Deliveries by Region

	2000	2001	2002	2003	2004	2005	2005/2004
Czech Republic	80,882	82,405	74,466	71,522	64,676	65,166	0.8%
Central Europe, excl. Czech Republic	89,517	92,766	82,549	93,474	87,139	73,855	(15.2%)
Other Eastern Europe	13,116	24,167	27,224	26,652	31,564	46,692	47.9%
Western Europe	229,109	244,099	238,323	235,861	240,672	276,216	14.8%
Overseas and Asia	22,779	16,815	22,963	22,249	27,624	30,182	9.3%
Total	**435,403**	**460,252**	**445,525**	**449,758**	**451,675**	**492,111**	**9.0%**

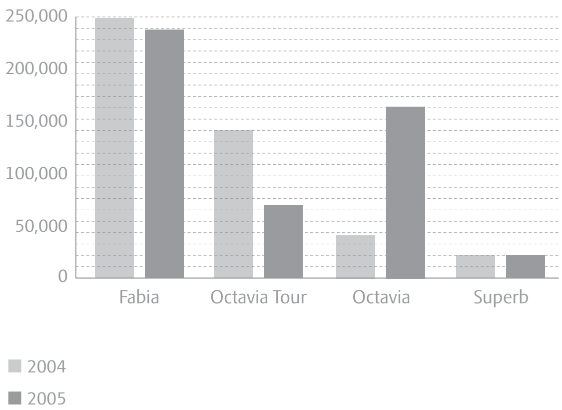
Vehicle Customer Deliveries by Model

	2000	2001	2002	2003	2004	2005	2005/2004
Felicia, total	**148,028**	**44,963**	**–**	**–**	**–**	**–**	**–**
Fabia, total	**128,872**	**250,978**	**264,641**	**260,988**	**247,600**	**236,698**	**(4.4%)**
Fabia	124,064	152,601	150,319	140,305	132,520	119,485	(9.8%)
Fabia Combi	4,808	81,641	81,996	97,157	97,012	99,637	2.7%
Fabia Sedan	–	16,732	31,185	22,406	17,036	16,451	(3.4%)
Fabia Praktik	–	4	1,141	1,120	1,032	1,125	9.0%
Octavia total	**158,503**	**164,134**	**164,017**	**165,635**	**181,683**	**233,322**	**28.4%**
Octavia (Tour)	96,253	97,679	98,766	97,198	82,259	48,999	(40.4%)
Octavia Combi (Tour)	62,250	66,455	65,251	68,437	58,427	20,802	(64.4%)
Octavia	–	–	–	–	39,734	90,042	>100%
Octavia Combi	–	–	–	–	1,263	73,479	>100%
Superb	**–**	**177**	**16,867**	**23,135**	**22,392**	**22,091**	**(1.3%)**
Total	**435,403**	**460,252**	**445,525**	**449,758**	**451,675**	**492,111**	**9.0%**

Vehicle Customer Deliveries by Region



Vehicle Customer Deliveries by Model



Vehicle Customer Deliveries in Selected Countries

	2000	2001	2002	2003	2004	2005	2005/2004
Czech Republic	80,882	82,405	74,466	71,522	64,676	65,166	0.8%
Slovakia	32,095	37,523	29,175	25,728	23,150	20,764	(10.3%)
Poland	39,326	37,354	34,301	42,927	39,693	27,649	(30.3%)
Hungary	7,707	8,354	11,507	15,462	17,350	18,130	4.5%
Central Europe	**170,399**	**175,171**	**157,015**	**164,996**	**151,815**	**139,021**	**(8.4%)**
Germany	65,219	66,937	67,656	70,055	78,051	90,103	15.4%
France	12,053	13,727	16,607	14,234	13,013	15,508	19.2%
United Kingdom	30,509	36,048	38,251	37,103	34,236	38,294	11.9%
Italy	23,005	28,643	23,051	23,061	20,478	19,605	(4.3%)
Spain	14,834	17,118	15,549	13,322	16,605	21,700	30.7%
Austria	19,466	18,880	15,552	16,200	15,601	16,301	4.5%
Denmark	5,921	6,083	7,068	7,207	8,362	9,377	12.1%
Sweden	18,827	8,853	9,008	8,614	8,763	10,967	25.2%
Western Europe	**229,109**	**244,099**	**238,323**	**235,861**	**240,672**	**276,216**	**14.8%**

Market Share (%)*

	2000	2001	2002	2003	2004	2005	2005/2004 **
Czech Republic	52.6	52.6	50.0	47.7	48.5	51.0	2.5
Slovakia	57.2	52.8	44.2	44.2	40.1	36.5	(3.6)
Poland	7.9	11.2	11.1	12.0	12.5	11.8	(0.7)
Hungary	5.3	5.5	6.6	7.3	8.2	9.0	0.8
Central Europe	**17.6**	**20.8**	**19.1**	**18.1**	**17.8**	**18.6**	**0.8**
Germany	1.9	2.0	2.1	2.2	2.4	2.7	0.3
France	0.6	0.6	0.8	0.7	0.7	0.8	0.1
United Kingdom	1.3	1.5	1.5	1.4	1.3	1.6	0.3
Italy	0.9	1.2	1.0	1.0	0.9	0.9	0
Spain	1.1	1.3	1.2	1.0	1.1	1.5	0.4
Austria	6.1	6.4	5.5	5.4	5.0	5.3	0.3
Denmark	5.3	6.3	6.3	7.4	6.9	6.4	(0.5)
Sweden	5.0	3.4	3.5	3.3	3.3	4.0	0.7
Western Europe	**1.5**	**1.6**	**1.7**	**1.7**	**1.7**	**1.9**	**0.2**

* Based on delivers to customers.

** In percentage points.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OCTAVIA

Changes in Legislation Governing Automobile Sales in 2005

Under Commission Regulation No. 1400/2002 on the block exemption (GVO) valid for countries of the European Economic Area (includes EU states, Norway, Iceland, and Liechtenstein) and Switzerland, as of 1 October 2002 the statutory conditions for sales of vehicles, spare parts, and related services were liberalised. This regulation became binding for manufacturers, distributors and their sales and service partners upon the expiration of a 12-month transition period, i.e. as of 1 October 2003 (or, in the new EU Member States, either as of the entry date or when applied in national legislation, as applicable).

Commission Regulation No. 1400/2002 includes a so-called "location clause", which until 30 September 2005 did not allow sellers of motor vehicles that are members of a selective distribution system to set up additional salesrooms and shipping warehouses in the European Economic Area and in Switzerland, except in areas where they already have operations. As of 1 October 2005, this temporary restriction was removed in the interests of price convergence across the European motor vehicles market.

In co-ordination with other Volkswagen Group brands, Škoda Auto adapted its distribution policies to comply with the amended legislation and set qualitative conditions for the existence of sales and shipping locations so as to ensure a high level of customer service quality in all locations within the European sales organisation and, despite these fundamental changes, the already established trend of steady improvement in the brand image continued.

Original Spare Parts and Accessories

Expansion of Škoda Auto Parts Centre
Newly as of April 2005, Volkswagen/Audi original parts for partners in Slovakia are also being sourced from this facility. Supplies of original Volkswagen/Audi parts to the Slovak market are just one of the steps in the Volkswagen Group's parts logistics strategy, which views the logistical centre in Mladá Boleslav – Řepov as the multi-brand depot responsible for supplying Eastern European markets with original spare parts.

Škoda Service – Dynamic Growth

As of 1 August 2005, the network of Škoda Auto authorised service partners numbered nearly 3,900 partners all over the world, 260 of which represent the Škoda brand in the domestic market. Customers in international markets can take advantage of the authorised Škoda Auto service from our nearly 3,600 contractual partners.

As part of the Škoda brand quality management system, the manufacturer and its importer companies conducted audits at over 1,800 full-function (sales and service) centres, over 200 salesrooms and 1,600 service partners. The audits were not limited to compliance with contractually guaranteed standards, but extended to marketing standards as well. In 2005, Škoda Auto also trained nearly 5,500 service employees from the Czech Republic and Škoda Auto importer companies. Over 1,400 training courses were held for service personnel from all over the world.

Our "Bottom 20" intensive care programme got off the ground in 2004, in the form of a pilot project. The programme is designed to increase customer satisfaction with service standards and improve the image of the Škoda brand. In 2005, this project was rolled out nationwide in both the Czech Republic and in international markets (Poland, Austria, Germany, etc.).

In 2005, Škoda Auto implemented new service systems at Škoda Auto authorised service partners in the Czech Republic and abroad. The ELSA system contains complete technical literature on Škoda vehicles and makes it possible to accelerate repair processes while improving repair quality at the same time. The SAGAII system accelerates the processing of warranty repairs and helps optimise warranty-related costs.

Škoda Auto continues to build its image on the concept of model architecture. Currently, Škoda Auto is represented by 162 model showrooms all over the world and 81 more are in the project preparation or construction phases.

Human Resources

Development of Employment
Employment at Škoda Auto moved in a positive direction, driven by the commencement of production of the new Roomster vehicle in the Kvasiny plant and increased production of the new Octavia. At year-end 2005, the Company had 22,554 full-time employees, an increase of 7.9% over the previous year. The increased staffing needs were concentrated especially in production-related professions. The external persons numbered 3,460 as of year-end 2005, a reduction of 5.6%. The average employee age at the Company was 38 years and the average duration of employment at the Company was 11.9 years.

By the end of 2005, approximately 350 new employees had been hired to work in the Kvasiny plant producing the new Roomster.

The remaining companies of the Škoda Auto Group had a total of 728 employees on the payroll as of 31 December 2005, an increase of 9.6% from the previous year.

Social Partnership
31 March 2005 marked the expiration of the Collective Agreement, which had been signed for a period of two years. Negotiations on a new Collective Agreement began in late 2004 and were conducted with the goal of arriving at an agreement that will ensure long-term Company development, work force stability, professional growth for employees, and competitiveness in the labour market. The result was the signing of a Collective Agreement that will remain in effect until 31 March 2008. The new agreement includes a 2-year wage deal. The consensus reached by the social partners in the collective bargaining process preserved labour peace. In 2005, it was decided to build up a network of protected workplaces as an expression of our social responsibility to employees.

For the second time in a row, Škoda Auto won the “Employer of the Year” award in a competition organised by Credit Suisse. This project, which is operated under the auspices of the Ministry of Labour and Social Affairs of the Czech Republic, evaluates personnel policies of companies and their relationship with their employees.

Personnel Development
Škoda Auto is aware of the potential inherent in students and recent university graduates, and therefore actively makes contact with them and offers them collaboration even during their studies. Through development programmes, the Company gives these potential future managers opportunities to gain specialised and general training as well as the opportunity to get to know the Company’s operations and its culture. In accordance with its corporate philosophy, Škoda Auto trains its future managers primarily from its own ranks and is committed to their long-term development. The personnel development strategy delivers both traditional and modern forms of professional growth – from classical training products to e-learning, project work and participation in Volkswagen Group international programmes. This comprehensive approach fosters and develops the multi-cultural environment at Škoda Auto as a component of the Volkswagen Group and, in the final analysis, ensures the positive development not just of individuals, but of the Company as a whole.

Through its specialists and managers, Škoda Auto is intensively involved in a number of international projects within the Volkswagen Group. Participation in international projects both in other Volkswagen Group companies and in Škoda Auto subsidiaries (e.g. in India and China) encourages employees to be flexible and furthers their professional and personal growth.

Continuing Education

Škoda Auto is well aware of the need for qualified specialists and invests no small sums in developing them. The Coaching unit carries on development programmes for all employee groups (from production professions to management positions). In 2005, new programmes were introduced for management and management candidates. Also, extensive training in standards was held in conjunction with the Czech Republic's accession to the European Union and e-learning was successfully rolled out. In 2006, we expect an increase in training programmes to support the start-up of Roomster production, expanded e-learning programmes, and inter-cultural coaching for employees being sent abroad as well as preparation courses for foreign employees in Mladá Boleslav.

Learning at the Secondary Vocational School of Mechanical Engineering and at the Vocational School is an integral part of the Company's education system. Upon graduation, students of these schools will be fully prepared to take up blue-collar positions at the Company. In 2005, Škoda Auto upgraded a number of learning tools that help improve the quality of learning. Currently, approximately thousand students are preparing for future careers at these two schools.

The Škoda Auto University celebrated its fifth anniversary in 2005. Through its "Economics and Management" programme, the institution provides higher education, ending with a Bachelor's degree, in the fields "Corporate Finance and Commercial Management" and "Corporate Finance and Operations Management". Students can either attend regular classes or participate through a distance learning programme. Škoda Auto University also holds accreditation for teaching both study fields in the English language. All told, 423 students were registered at the university in 2005. The number of students who graduated and were awarded a Bachelor's degree was 97. Approximately half of these found jobs with Škoda Auto and its suppliers. Almost one third of the students continue their studies in Master's-degree programmes at other universities.

With the obtaining of a zoning decision, the commencement of construction permit proceedings, and selection of a general contractor, the Na Karmeli Education Centre entered the realisation phase in 2005. Concurrently, intensive preparations are underway on more education projects – accreditation of a Master's degree programme at Škoda Auto University and establishment of a centre for collaboration with universities, which is to become an integral part of the Education Centre.

ŠKODA AUTO a.s. continues to develop its collaboration with technical universities. Framework agreements with the Czech Technical University in Prague, the Technical University of Liberec and the University of West Bohemia in Pilsen have been renewed, joint study programmes are being developed and, at the same time, proposals are being drafted to receive funding from European Structural Funds – specifically, from the Human Resources Development Action Programme. In late 2005, a colloquium of technical university presidents with Škoda Auto managers was held, where a number of suggestions were raised for further joint projects.

Health Management

Considerable attention was paid to employee health-care. Employees benefited from a wide range of health programmes focused on primary prevention and health support. An important component of the prevention programme was free-of-charge flu vaccinations for employees. This voluntary programme was utilised by a total of 24.6% of the Škoda Auto workforce (5,203 employees; 534 apprentices). Average employee presence was 97.7%.

Z.E.B.R.A.

Fostering conditions supportive of employee initiative, in particular on cost savings of all kinds, streamlining of work processes, improving quality, workflow, working conditions, the environment, and ergonomics – that sums up what the Z.E.B.R.A. programme is all about. In 2005, 4,504 employees, or 21.2% of the overall workforce, got involved in the programme by submitting their ideas. A total of 10,643 suggestions were put forward. The estimated benefit from the suggestions implemented was CZK 182 million, and the implementation success rate was 71.6%.

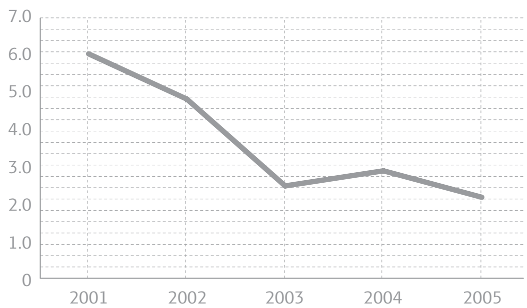
Labour Safety

Occupational safety and health is a long-term priority area and this is reflected in the Company's very low rate of work-related injuries. Indeed, for a long time now, Škoda Auto has been among the automotive manufacturers with the lowest injury rates. Measured using the injury frequency index, i.e. the number of injuries per 1 million man hours, the current value is just 2.2. One very positive accompanying aspect is the fact that the proportion of injuries caused by the Company fell compared to 2004 from 7.6% to 1.9%.

Qualification Structure (%)

Primary	7.4%
Vocational	51.8%
Completed vocational	31.4%
University	9.4%

Injury Rate



Organisation and Information Systems

Processes – Organisation – Systems – Services
Business process thinking is already apparent in the management of the whole Company. A strict focus on value-creating processes and optimising them necessarily brings with it changes in the organisation. In this respect, our objective is to be on par with the best players in the global automotive industry.

Requirements for standardisation of value-creating processes throughout the entire group have also given rise to initiatives and changes in existing work processes at Škoda Auto. The need for effective, customer-focused work processes is closely linked to the necessity of rolling out modern information systems. However, not all of what is technically possible today is actually useful for customers. Therefore, the highest priority is pragmatic, cost-optimised use of information and communication technologies.

We are concentrating our know-how on web technologies in the customer orders and services processes and on rolling out standard, integrated corporate financial software and standard Volkswagen Group systems for production and logistics.

Growth of Škoda Brand
With new products and successful penetration of new markets, the Škoda brand intends to keep building on its successes to date and grow even further, and this puts heavy demands on strategic development projects – in addition to professional project management, it also requires the smooth, problem-free co-operation of all Company units.

In this respect, the IT function is taking charge of providing systems support in the logistics and production areas as the Company continues to ramp up production from CKD vehicle assemblies.

To prepare the way for the new Roomster model line, all necessary systems solutions for order planning and production management have been put in place, including support for logistical processes. Thanks primarily to the consolidation and centralisation of IT infrastructure in all three Škoda Auto manufacturing plants, in the Czech Republic considerable savings were realised.

Optimising of IT Solutions and Services
During 2005, the process of integrating Škoda Auto's IT services into the Volkswagen Group-wide organisation was commenced. To lay the foundation for meeting the goal of complete integration, the IT services function is being reorganised and transitioned to ITIL (IT-Infrastructure Library) compliant processes. This will create an unified IT support platform for the entire Volkswagen Group, leading to further potential cost savings for the benefit of our customers. Progress toward this goal will be facilitated by a greater degree of standardisation via best practice sharing and well-aligned development road maps.

Following the successful Company-wide roll-out of an ISMS (Information Security Management System), close attention was paid to preventive measures. An IT security audit carried out in all areas of production, including the Vrchlabí and Kvasiny plants, as well as the subsidiary Škoda Auto India Private Ltd., vetted compliance with the technical and organisational measures.

Sponsorship and Advertising

2005 was characterised by the already traditional general partnership with the ice hockey championship, which is gaining on the sponsorship of the most famous cycling event, the Tour de France, in terms of importance and publicity.

The 2005 IIHF Ice Hockey World Championships in Vienna and Innsbruck, Austria, yielded the Czech team the title of World Champions. The joy of the gold medal, treasured by Škoda Auto all the more because, in addition to having its logo in the centre face-off circle, advertisements on the boards, and Škoda cars on display both inside and outside the stadiums, alongside another several dozen vehicles comprising the Championship's official vehicle fleet, Škoda Auto was also a partner of the Czech national team. With over 2,000 hours of television broadcasts, the event was very significant for the visibility of the brand and its products, increasing recognition and improving the brand's image. The Slovak team's helmets were also emblazoned with the Škoda Auto logo.

For the second year running, Škoda Auto was one of the principal sponsors of the legendary Tour de France. While it is still relatively early for a full evaluation of this project, the positive response of a number of media outlets and the general public to role of Škoda Auto in this event, which always attracts a lot of attention from television crews and the media in general, is readily apparent even now. Simply put, Škoda Auto and the Tour de France belong together and this was obvious at each of the 3,607 kilometres the riders covered on their bicycles. In this year's Tour, over 200 Škoda vehicles once again served as official cars. Compared to 2004, Škoda Auto increased its visibility by signing agreements with eight professional teams. Along the Tour route alone, the event attracted nearly 19 million spectators.

2005 saw Škoda Auto continue in its support for golf, a sport which is rapidly gaining popularity among the general public and whose star is sure to rise even higher in the years to come. Škoda Auto is not being left behind in regional activities either – we support both the first league football and the Mladá Boleslav hockey team.

Škoda Auto sees support for culture and the arts as both its responsibility toward society and an opportunity to present itself together with leading artistic groups and at cultural events. Examples include our partnership with the National Theatre and the Czech Philharmonic, whose fame extends far beyond the borders of the Czech Republic. We also continued to sponsor the film festival for children and youth in Zlín, through which Škoda Auto gains recognition among the youngest population groups.

Another important part of the Company's social activities is support for charity projects – most significantly, our partnership with Centrum Paraple (Paraplegic Centre), which helps handicapped citizens lead fuller lives, and the Healthcare Clown project, which livens up young children's hospital stays.

Marketing Communications

Following the successful launch of the Octavia in world markets, the Octavia Combi, Octavia Combi 4x4 and Octavia RS and Octavia Combi RS models were launched as well. The 4x4 models and especially the RS are important milestones on the road to emotionalising the brand. Communication on the new Octavia RS reflects the duality that is inherent in the product itself: on the one hand, rational values such as functionality and practicality, and on the other hand, the emotive aspect represented by dynamic design, sports-car features, and high-performance engines that deliver the proper driving experience.

Throughout the entire year 2005, the Company's communications emphasised 100 years of automobile manufacturing. The anniversary logo created specially for this occasion was integrated into all materials and communications the whole year long, from the Geneva Motor Show on. At both motor shows, in Geneva and Frankfurt, the automotive manufacturing history theme was presented in an attractive fashion. Some of the most important activities commemorating this anniversary were limited editions (Edition 100) of the Fabia, the Octavia, and the Superb, and the production of two television spots communicating the 100-year tradition of car manufacturing in Mladá Boleslav.

Infrastructure Development and Surrounding Relations

Social responsibility toward employees, business partners, and all other people who come in contact with Škoda Auto meets or may do so in the future, requires an active approach from the Company. Škoda Auto's involvement in current affairs goes a long way toward anchoring the Company in the society in which we operate, while at the same time contributing to earnings growth. Thanks to Škoda Auto's international presence, the Company is developing collaboration with partners from other areas – education, culture, local government, social services, and the non-profit sector – in various countries around the world.

Škoda European Tour 2005
In commemoration of 100 years of automotive manufacturing in Mladá Boleslav, the summer of 2005 saw five historical motor cars ride through a total of ten European countries. On their way, the veteran vehicles participated in countless social events and offered residents of European countries an opportunity to view firsthand some milestones of the brand's historical development.

National Design Prize
In April 2005, the new Škoda Octavia Combi won the National Prize for Product Design. The "Excellent Product of the Year" national design competition, in which the "National Prize for Product Design" is awarded, has been organised every year since 1991 by the Czech Republic Design Centre under the auspices of the Ministry of Industry and Trade of the Czech Republic. Nominated products are judged by a international panel of eleven professional designers, artists and university professors. In the rationale for its decision, the panel of judges expressed appreciation for the fact that the new Škoda Octavia was designed by Škoda Auto's own development centre in Mladá Boleslav.

European Co-ordinated Teacher Education Project
Škoda Auto, Robert Bosch and the Ministry of Education of the Czech Republic signed an agreement on co-operation on the realisation of an education project, in which, over the next three years, Škoda Auto and Bosch will train 28 instructors from 14 vocational schools. These, in turn, will go on to train more teachers in their respective regions. The Ministry of Education granted the Project accreditation, under which teachers who complete the training programme will have their DVPP (Teachers Continuing Education) qualification level increased. The principal objective of the Project is to increase the qualification levels of teachers at vocational technical schools, i.e. to expand their technical knowledge of the automotive industry and diagnostic technologies.

Partnership with the National Theatre
The combination of two important anniversaries at Škoda Auto – 100 years of car production and the 110th anniversary of the Company's establishment – with an extraordinary season at the National Theatre, which saw its first-ever performance of the complete Ring of the Niebelung, strengthened the traditional and successful collaboration of both partners and led to a decision to continue the long-term partnership.

Partner of the World Cycling Championship
Starting in 2005, Škoda Auto became an official partner and, at the same time, the official car, of the World Road Cycling Championship. At the same time, it became a sponsor and the official car of the Union Cycliste Internationale (UCI). The sponsorship contract, which is valid until 2007, signifies Škoda Auto's continued successful support for cycling which began with the partnership with the legendary Tour de France.

Na Karmeli Education Centre
In June 2005, construction commenced on a joint project of Škoda Auto and the City of Mladá Boleslav that, when completed, will be one of the most modern educational centres in the region. The Škoda Auto University, Coaching and school centre will be based on the campus. The renovated monastery building will house mediatheques, libraries, and study rooms, while the church will be used for social and sporting events, creating a natural connection between the city's public life and the campus environment.

The Environment

In 2005, Škoda Auto conducted all of its operations and pursued all of its policies so as to fulfil all aspects of the strategy for steady improvement of environmental protection. This was confirmed by successfully passing a follow-up audit of our Environmental Management System (EMS), based on which Škoda Auto obtained a certificate of compliance with a recently revised global ISO 14001:2004 standard. By taking appropriate measures that go beyond statutory requirements, the Company continues to develop and lead its employees, contractual suppliers, and dealers alike to take a responsible approach to protecting the environment.

Our environmental protection processes are reasonable and effective. In 2005, they were impacted primarily by stricter legislation, the building of a new production capacity in the Kvasiny plant, and the clean-up of legacy environmental burdens in the Mladá Boleslav plant. In this respect, Škoda Auto did the following, *inter alia*:

- ensured compliance with its statutory obligations concerning collection and liquidation of wrecks, tires, batteries, and mineral oils,
- operated state-of-the-art paintshops in Mladá Boleslav and Kvasiny in accordance with integrated permits. The Company also applied for a similar permit for a foundry facility in Mladá Boleslav,
- drew up a Company-wide waste management plan for the period until 2010 and submitted it to the appropriate regional government authorities,
- utilised an environmental information system to collect, store, sort and present environmental data, both for its own needs and to provide information to government agencies – in particular, for reports to the nationwide integrated pollution register,
- carried out extensive clean-up work to eliminate contaminated floors and soil substrates in older halls used for machining, pressing, and welding in Mladá Boleslav.

In 2005, Škoda Auto invested CZK 350 million in protecting the environment, and therefore in its future. These funds went to the following, in particular:

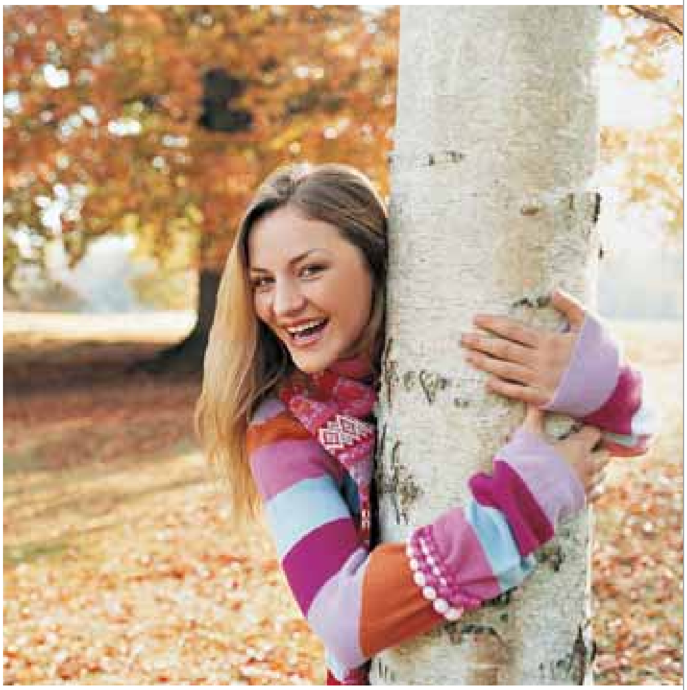
- equipping new production capacities in the Kvasiny plant with the best available environmental protection technology,
- installing new sealed flooring in portions of the oldest halls in Mladá Boleslav used for machining, pressing, and welding to prevent any harmful substances from passing through the floor and into the soil,
- building holding tanks for storm sewers in Mladá Boleslav to deal with heavy rainfall and lower the risk of harmful waterborne substances being released into the environment,
- upgrading steel-mill facilities.

In 2005, Škoda Auto met all environmental limits with sufficient room to spare and continued to mitigate the impacts of its business on the environment. In so doing, the Company contributed to fulfillment of the principles of sustainable development and demonstrated its friendly approach to life and nature.

Škoda Auto Environmental Investments, 1991–2005:

Wastewater treatment	CZK 860 million
Paintshop measures and new paintshops	CZK 1,609 million
Clean air, energy	CZK 5,641 million
Building insulation	CZK 328 million
Protection of soil and groundwater	CZK 587 million
Protection of work environment	CZK 286 million
Total	**CZK 9,311 million**

Outlook



Economic Development Forecast

According to the International Monetary Fund (IMF), the Czech Republic economy is in good shape and, in 2006, it is expected to grow by approximately 4%, which is above average for Central Europe. In spite of this, budget deficits continue to be a problem and, according to the IMF, the Czech Republic should continue to reduce them. The Czech Republic's exports are expected to grow thanks to greater production capacities, but the pace of growth in capital spending is likely to taper off. Price growth is expected to accelerate to slightly under three percent, with the biggest gainers to be regulated energy prices. Unemployment is expected to fall slightly or remain flat. The Czech Crown should continue to strengthen, but at a much slower rate than in 2005.

In 2006, a moderate acceleration in the growth of Eurozone economies is anticipated. The trend in Central Europe is expected to be one of conscious, gradual transition to fulfilment of Maastricht criteria and the implementation of new reforms. Phenomenal economic growth in China and India will continue and be a positive factor motivating development in other economies in both Asia and Europe. At the global level, however, there are still risks, the biggest of which are high prices of oil and other commodities.

Automotive Industry Outlook

In the European Union, focus areas for automotive manufacturers in Central Europe will include execution of their investment strategies, as well as seeking out new sales opportunities and exploiting them to maximum advantage. The EU automotive industry development plan calls for the Czech Republic to pay more attention to improving legislation, reducing CO_2 emissions, and road safety, as well as export opportunities and placement of products from the EU in automotive markets outside the European Union. In 2006, we expect to see heavier competitive pressure on supplies of products and services according to customer requirements, in terms of both quality and quantity. The competitive environment will be enriched by aggressive marketing. There will be new opportunities for flexible local suppliers, and new and more advantageous resources will be sought.

Compared to 2005, the overall Central European market is expected to recover somewhat (+3.5%), and this recovery is expected to be concentrated in Poland (+6.1%) and the Czech Republic (+6.0%). Western European markets, on the other hand, are expected to remain flat overall (-0.3%), with slight improvements to be seen only in Germany (+1.7%) and France (+2.5%).

Sales and Marketing Strategy

Against a backdrop of development in overall markets and product life-cycles, growing competition and general development in individual markets, in 2006, the Škoda Auto Groups plans to break the record number of vehicles supplied to customers set in 2005, surpassing the 500,000-vehicle mark for the first time. In particular, increased unit sales are planned in Western Europe, Eastern Europe, and in overseas markets.

The Octavia will become the best-selling model line in 2006. In the second half of the year, the Company's fourth model line – the Roomster – will be launched in selected European markets. The Roomster launch will be the product event of the year for the entire Škoda Auto Group, and it will be introduced to the public at the Geneva Motor Show in late February 2006.

Thanks to the Roomster's cleverly designed interior space, great functionality and riding comfort, the brand is bringing to market a new model line that will stand alone, contributing substantially to the development and emotionalisation of the Škoda brand and clearing the path to new segments, and hence to new customers.

Financial Outlook

In 2006 and the medium term, the Škoda Auto Group expects to meet its strategic sales targets, in particular by developing existing markets (including expanding assembly plant capacities in certain countries) and by opening up new markets. The expanded pallette of new products and ongoing optimising measures will contribute to the positive development of the Group's financial situation. Thus, the Group's principal strategic goal in finance continues to be ongoing growth in earnings and net liquidity.

Capital Investment and Technical Development Strategy

In 2006, Škoda Auto will shift its capital investment activities to development of the Fabia successor car and preparations for its production.

Investments in labour relations and training will continue, as will the construction of a modern education centre for the private and State university in Mladá Boleslav, which commenced in July 2005 at the Na Karmeli site.

An integral component of the Company's strategy is to penetrate new markets and expand our operations in ones where our presence is already established. Such a decision entails considerable investment in building the modern infrastructure necessary for further development of international projects for producing cars from CKD vehicle assembly kits.

In reaction to the technological challenges of the future – such as, e.g., development of electronics and new materials – and to beef up Škoda Auto's development competencies, 2006 will see continued construction on a new Technology and Development Centre which began in 2005. By 2009, capital spending on the project, which aims to modernise and expand testing and technology facilities, is expected to reach CZK 1.2 billion. This will help ensure that Škoda Auto Technical Development maintains and further develops a high level of professional expertise, not only in technical development, but in many other areas as well.

Production and Logistics

2006 will be significant in that it will see a new model line, the Roomster, added to the existing range of vehicles manufactured by the Company. Production of the new model will take place in the Kvasiny branch plant. Series production is planned to commence in March, 2006.

Human Resources Strategy

In 2006, human resources activities at Škoda Auto will focus in particular on developing the Kvasiny plant. In order to put the Roomster model into production, it will be necessary to hire nearly 1,500 employees and adapt the plant's social infrastructure to its new size.

The Škoda brand's strategy of sales regions will be supported by targeted, intensive training of managers to prepare them for work abroad. In 2006, the Škoda Auto University will begin offering a Master's degree programme in addition to its current programmes.

Auditor's Report on the Annual Report and the Report on Relations

PricewaterhouseCoopers Audit, s.r.o.
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Report of Independent Auditors to the Shareholders of ŠKODA AUTO a.s.

We have examined consistency of the annual report of ŠKODA AUTO a.s. ("the Company") with the consolidated financial statements included in the annual report on pages 63 to 99 and with the separate financial statements included in this annual report of the Company on pages 101 to 133 (together "the financial statements"). The preparation of the annual report is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our examination.

We conducted our examination in accordance with Act on Auditors, the International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the financial information contained in the annual report, which describes the facts presented in the financial statements, are consistent with the financial statements in all material respects. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information included in the annual report is consistent with the financial statements in all material respects.

In addition we have also reviewed the factual accuracy of the accompanying 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 period ended 31 December 2005 ("the Report on relations") on pages 134 – 137 of this annual report. The preparation of the Report on relations is the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on the Report on relations based on our review.

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 on relations 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. 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 on Relations has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.

14 February 2006

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

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

Auditor's Report on the Consolidated Financial Statements

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Report of Independent Auditors to the Shareholders of ŠKODA AUTO a.s.

We have audited the accompanying consolidated balance sheet of ŠKODA AUTO a.s. ("the Company") and its subsidiaries (together, "the Group") as of 31 December 2005, the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended ("the consolidated financial statements"). The consolidated financial statements, which include description of the Group's activities, and underlying accounting records are the responsibility of the Company's Board of Directors. 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, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Group as at 31 December 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

24 January 2006

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

Consolidated Balance Sheet as at 31.12.2005 and Opening Balance Sheet as at 1.1.2004

(CZK million)

ASSETS	Note	31.12.2005	31.12.2004	1.1.2004
Intangible assets	3	13,210	12,721	12,103
Property, plant and equipment	4	41,466	42,574	46,447
Available for sale financial assets		181	181	243
Other receivables and financial assets	5	193	166	143
Deferred tax assets	14	374	216	316
Non-current assets		**55,424**	**55,858**	**59,252**
Inventories	6	12,270	13,849	11,991
Trade receivables	7	6,224	8,067	11,513
Current tax receivables		231	72	27
Other receivables and financial assets	5	14,430	11,882	5,658
Cash	8	1,176	6,473	3,221
Current assets		**34,331**	**40,343**	**32,410**
TOTAL ASSETS		**89,755**	**96,201**	**91,662**

LIABILITIES	Note	31.12.2005	31.12.2004	1.1.2004
Share capital	9	16,709	16,709	16,709
Share premium		1,578	1,578	1,578
Reserves	10	28,395	25,549	24,291
Equity without minority interests		**46,682**	**43,836**	**42,578**
Minority interests		75	87	76
Equity		**46,757**	**43,923**	**42,654**
Non-current financial liabilities	11	4,990	4,986	9,972
Other non-current liabilities	13	631	361	770
Deferred tax liabilities	14	2,837	3,000	3,171
Non-current tax payables		268	74	–
Non-current provisions	15	4,111	3,630	2,741
Non-current liabilities		**12,837**	**12,051**	**16,654**
Current financial liabilities	11	2,475	12,718	9,930
Trade payables	12	18,855	20,152	16,483
Other current liabilities	13	2,328	2,562	1,833
Current tax payables		1,056	874	443
Current provisions	15	5,447	3,921	3,665
Current liabilities		**30,161**	**40,227**	**32,354**
TOTAL LIABILITIES		**89,755**	**96,201**	**91,662**

The notes on pages 66 to 99 are an integral part of these consolidated financial statements.

Consolidated Income Statement for the Year Ended 31.12.2005

(CZK million)

	Note	2005	2004
Sales	**17**	**187,382**	**163,665**
Cost of goods sold		163,738	144,368
Gross profit		**23,644**	**19,297**
Distribution expenses		10,611	10,278
Administrative expenses		3,676	3,513
Other operating income	18	4,027	3,514
Other operating expenses	19	2,524	3,125
Operating profit		**10,860**	**5,895**
Financial income	20	482	433
Financial expenses	20	1,269	1,485
Financial result		**(787)**	**(1,052)**
Profit before income tax		**10,073**	**4,843**
Income tax expense/(income)	21	2,180	1,474
– current		2,320	1,550
– deferred		(140)	(76)
Profit for the year		**7,893**	**3,369**
Attributable to:			
Equity holder of the Company		7,879	3,343
Minority interests		**14**	**26**
		7,893	**3,369**

The notes on pages 66 to 99 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the Year Ended 31.12.2005

(CZK million)

				Reserves					
	Note	Share capital	Share premium	Retained earnings	Currency translation reserve	Reserves for cash flow hedges*	Equity attributable to shareholder of ŠKODA AUTO a.s.	Minority interests	Total equity
Balance at 1.1.2004		**16,709**	**1,578**	**25,219**	**–**	**(928)**	**42,578**	**76**	**42,654**
Profit for the year		–	–	3,343	–	–	**3,343**	26	**3,369**
Dividends paid		–	–	(3,050)	–	–	**(3,050)**	(16)	**(3,066)**
Exchange differences		–	–	12	(17)	–	**(5)**	1	**(4)**
Financial derivatives**	10	–	–	–	–	970	**970**	–	**970**
Balance at 31.12.2004		**16,709**	**1,578**	**25,524**	**(17)**	**42**	**43,836**	**87**	**43,923**
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**	10	–	–	–	–	(552)	**(552)**	–	**(552)**
Balance at 31.12.2005		**16,709**	**1,578**	**28,919**	**(14)**	**(510)**	**46,682**	**75**	**46,757**

* Net of deferred tax from financial derivatives.

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

The notes on pages 66 to 99 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement for the Year Ended 31.12.2005

(CZK million)

	Note	2005	2004
Cash and cash equivalents at 1.1.	**16**	**15,073**	**3,221**
Profit before income tax		10,073	4,843
Depreciation of non-current assets *	3,4	12,292	13,137
Change in provisions	15	2,007	1,145
Gain on disposal of non-current assets		(50)	(3)
Net interest expense	20	787	1,068
Change in inventories		1,482	(1,937)
Change in receivables		1,437	6,190
Change in liabilities		(1,741)	4,344
Income tax paid from operating activities	21	(2,123)	(1,089)
Interest paid		(1,085)	(1,232)
Interest received		471	328
Cash flows from operating activities		**23,550**	**26,794**
Purchases of non-current assets		(8,843)	(7,566)
Additions to capitalised development costs	3	(2,862)	(2,453)
Proceeds from sale of financial investments		–	62
Proceeds from sale of non-current assets		139	205
Cash flows from investing activities		**(11,566)**	**(9,752)**
Cash flows netto (operating and investing activities)		**11,984**	**17,042**
Dividends paid		(4,480)	(3,066)
Change in liabilities from factoring		(4,564)	(1,971)
Repayment of bonds	11	(5,000)	–
Repayment of other borrowings	11	(626)	(116)
Cash flows from financing activities		**(14,670)**	**(5,153)**
Net change in cash and cash equivalents		**(2,686)**	**11 889**
Exchange losses on cash and cash equivalents		**(11)**	**(37)**
Cash and cash equivalents at 31.12.	**16**	**12,376**	**15,073**

* Including additions to cumulative impairment losses.

The notes on pages 66 to 99 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements 2005

1 Summary of significant accounting policies and principles

1.1 Basis of preparation of consolidated financial statements

The consolidated financial statements of ŠKODA AUTO a.s. (“the Company”) and its subsidiaries (together “the Group”) for the year ended 31 December 2005 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by 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.

1.2 Changes resulting from first time adoption of IFRS

Until 31 December 2004 the financial statements of the Company were prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and Czech Accounting Standards (“CZ GAAP”). Within Regulation No. 500/2002 Coll., the Company has been excluded from the obligation to set up consolidated financial statements, as it was included in the consolidation of Volkswagen AG Group as a controlled entity. The consolidated financial statements of Volkswagen AG have been prepared in accordance with IFRS.

Resulting from the changes in the relevant legislation, the Company as an issuer of listed bonds is obliged for the first time to prepare consolidated financial statements as at 31 December 2005 in accordance with IFRS in line with IFRS 1. This change involves the obligation to prepare and publish the consolidated financial statements.

In the past, the Company prepared financial information in accordance with IFRS for the purpose of inclusion in the consolidated financial statements of VOLKSWAGEN AG. In accordance with IFRS 1, paragraph 24(a), when preparing these consolidated financial statements, the Company measured its assets and liabilities at the carrying amounts used for the purposes of the consolidated financial statements of VOLKSWAGEN AG.

Early adoption of revised and new standards:
In 2004, VOLKSWAGEN AG early adopted the IFRS below, which are relevant to the Group’s operations. Consequently, comparative information in these consolidated financial statements has been prepared in accordance with the requirements of these standards:
IAS 1 (revised 2003) Presentation of Financial Statements;
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates;
IAS 36 (revised 2004) Impairment of Assets;
IAS 38 (revised 2004) Intangible Assets; and
IFRS 3 (revised 2004) Business Combinations.

In 2005, VOLKSWAGEN AG applied the standards listed below, which are relevant to the Group's operations. Consequently, these consolidated financial statements are prepared in accordance with these standards:
IAS 2 (revised 2003) Inventories;
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors;
IAS 10 (revised 2003) Events after the Balance Sheet Date;
IAS 16 (revised 2003) Property, Plant and Equipment;
IAS 17 (revised 2003) Leases;
IAS 24 (revised 2003) Related Party Disclosures;
IAS 27 (revised 2003) Consolidated and Separate Financial Statements;
IAS 28 (revised 2003) Investments in Associates;
IAS 31 (revised 2003) Interests in Joint Ventures;
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation;
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement;
IFRS 2 (revised 2004) Share-based Payments; and
IFRS 5 (revised 2004) Non-current Assets Held for Sale and Discontinued Operations.

From the standards applicable for the year 2005, the following standards are applied prospectively, i.e. comparative information in these consolidated financial statements has not been compiled in accordance with the relevant requirements of these standards:
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement, paragraph 105 – 108;
and IFRS 5 (revised 2004) Non-current Assets Held for Sale and Discontinued Operations.

Differences between IFRS and CZ GAAP
The differences in the profit for the year and equity according to IFRS and CZ GAAP are caused by different accounting methodology, mainly in the following areas:

- Consolidation;
- In accordance with IAS 38, development costs are recognised as intangible assets if it is probable that manufacture of the products being developed will generate probable future economic benefits to the company. In accordance with CZ GAAP, development costs are expensed to the income statement as incurred;
- Provisions for deferred maintenance of tangible fixed assets are created in accordance with CZ GAAP. These provisions do not meet the recognition criteria of IFRS;
- Differences in the amounts of deferred taxes arise from differences in non-current assets and development costs;
- The non-current assets are depreciated over their estimated useful lives. For the purpose of the consolidated financial statements in accordance with IFRS, all estimated useful lives are based on the accounting guidelines of the parent company. The estimated useful lives of some non-current assets acquired in the past as used for CZ GAAP purposes differed from estimated useful lives as set in the accounting guidelines of the parent company. This results in differences in the amount of the depreciation and accumulated depreciation according to CZ GAAP and IFRS;
- Other differences exist particularly in the following areas – impairment of fixed assets, complex prepaid expenses, provision discounting and redemption of revaluation funds related to financial derivatives.

Reconciliation of IFRS and CZ GAAP
As described above, the Company was not obliged to prepare consolidated financial statements in the past. With regards to this fact, the reconciliation of CZ GAAP and IFRS is based on separate financial statements of the Company.

Reconciliation of the Company's net profit according to CZ GAAP to Group's net profit according to IFRS for the year ended 31.12.2004 (CZK million):

	2004
Net profit – CZ GAAP	**3,497**
Capitalisation and amortisation of development costs	576
Depreciation of non-current assets	(631)
Financial derivatives – redemption of revaluation funds	(102)
Other effects	(207)
Separate profit after tax – IFRS	**3,133**
Consolidation effects	236
Consolidated profit after tax – IFRS	**3,369**

Reconciliation of the Company's equity according to CZ GAAP to Group's equity according to IFRS (CZK million):

	31.12.2004	1.1.2004
Equity – CZ GAAP	**32,844**	**31,758**
Capitalisation and amortisation of development costs	10,901	10,324
Depreciation of non-current assets	4,876	5,507
Deferred tax	(3,952)	(4,209)
Other effects	(522)	(294)
Separate equity – IFRS	**44,147**	**43,086**
Consolidation effects	(224)	(432)
Consolidated equity – IFRS	**43,923**	**42,654**

Other effects include discounting of provisions, redemption of revaluation funds related to financial derivatives, provisions for deferred maintenance, impairment of assets and complex prepaid expenses.

Reconciliation of the Company's cash flows according to CZ GAAP to Group's cash flows according to IFRS for the year 2004 (CZK million):

	Cash flows CZ GAAP	Diff.*	Separate cash flows – IFRS	Consolidation effects	Consolidated cash flows IFRS
Cash and cash equivalents at 1.1.	**2,495**	–	**2,495**	**726**	**3,221**
Cash flows from operating activities	22,400	764	23,164	3,630	26,794
Cash flows from investing activities	(17,311)	7,354	(9,957)	205	(9,752)
Cash flow from financing activities and other differences	(3,050)	482	(2,568)	(2,622)	(5,190)
Change in cash and cash equivalents	**2,039**	**8,600**	**10,639**	**1,213**	**11,852**
Cash and cash equivalents at 31.12.	**4,534**	**8,600**	**13,134**	**1,939**	**15,073**

* Difference is due to different definition of cash and cash equivalents (Note 16), different classification of items and different accounting methodology (e.g. development costs).

1.3 Scope of consolidation

In addition to ŠKODA AUTO a.s. located in Mladá Boleslav, the consolidated financial statements include all significant companies in which the Group is able, directly or indirectly, to control the 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 ceases.

The significant subsidiaries of ŠKODA AUTO a.s. are as follows: ŠkodaAuto Deutschland GmbH; ŠKODA AUTO Slovensko, s.r.o.; Skoda Auto Polska S.A.; and Skoda Auto India Private Ltd.

1.4 Consolidation principles

The companies of the Group 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.

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

Foreign subsidiaries 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	**2005**	**2004**
Poland	PLN	7.514	7.459
India	INR	0.546	0.515
Slovakia	SKK	0.766	0.786
Germany	EUR	29.002	30.469

1.6 Intangible assets

Purchased intangible assets are recorded at cost less amortisation. 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 intangible assets 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 developed by the units, 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.

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

– Research & development	5–10 years according to the product life cycle
– Software	3 years
– Royalties	8 years
– Other intangible fixed assets	5 years

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 Investments

The Group classifies its investments 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 investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss
This category includes 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 according to accounting principles. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(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 included in trade and other receivables in the balance sheet (Note 5 and Note 7).

(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 year, 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 off the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments 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. The fair values of quoted investments are based on current bid prices. If the market for a equity investments is not active or equity investments are not quoted in the capital market and it is not possible to determine fair value, these are valued at purchase costs. In this case, the Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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 included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of 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 gains and losses.

1.10 Financial derivates

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 fulfilling the requirement of a hedge accounting. The Group uses derivatives to hedge interest rate and currency risks.

The Group uses derivatives to hedge future cash flows. The hedged items are as follows:
– Fixed commitments (hedge of currency risk);
– Highly probable future transactions (cash flow hedges); and
– Cash flow from selected liabilities.

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 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 using 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 segment of changes in the fair value of financial derivates that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Group recognizes deferred income tax assets on unused investment tax credits against deferred tax income in the income statement to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

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.

The value of the inventories is reduced by the impairment loss, which reflects all risks of obsolete and redundant raw materials and excessive spare parts.

Costs also include transport, customs duty, and packaging. A weighted-average calculation is used to account for the consumption of materials and for all sales.

Inventories generated from own production, i.e. work in progress and finished goods, are stated at own production costs. 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.

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 minimum 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 recorded at amortised cost in the balance sheet. Differences between historical cost and the repayment amount are amortised 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 for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group.

Sales from the goods sold or services provided are recognised only when the goods have been delivered or the services rendered, that is, when the risk has passed to the customer.

Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period 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.

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

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 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.

1.19 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 repairs
The Group recognises provisions for warranty repairs 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 repairs is monitored during the year and the detailed analysis of the provision according to the single types, production years, guarantee types and the sales regions is prepared at the year-end (Note 15).

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. Provision for disposal is included within Provisions for obligations arising from sales (Note 15).

Income taxes
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.

Provision for employee benefits
The Group recognises the provision for employee benefits on the basis of actuarial estimates. The basis for that is the principle of equivalence (principle of justice). The algorithm for the provision's calculation itself depends on the duration of employment (long-service awards, retirements) or on demographic facts (death of employee) and further on the probability of the benefits that are awarded by individual companies of the Group. The companies' personal statistics are essential for the determination of the provision's value. The determination of the employment benefits provision's value is set up on the basis of probability that the employee will obtain this benefit.

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.

1.20 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 2005, operations 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 the netting principle in line with a framework defined in advance. 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 borrowings used to finance its investments. 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

	Remaining term			Nominal amount total	Nominal amount total
CZK million	< 1 year	1–5 years	> 5 years	31.12.2005	31.12.2004
Interest rate swaps	–	5,000	–	5,000	5,000
Currency forwards	68,531	4,088	–	72,619	16,610
Currency swaps	525	–	–	525	1,590

2. Segment reporting

Primary reporting format – business segments
At the end of 2005, 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.

2004	**Czech Republic**	**Western Europe**	**Central and Eastern Europe**	**Unallocated***	**Total**
Sales – according to customer location	24,127	94,979	35,858	8,701	163,665
Costs incurred to acquire segment assets	9,929	63	16	62	10,070
Assets – according to their location	86,613	5,030	3,134	1,424	96,201

2005	**Czech Republic**	**Western Europe**	**Central and Eastern Europe**	**Unallocated***	**Total**
Sales – according to their location	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

* 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)

Changes in intangible assets between 2004 and 2005:

	Goodwill	**Capitalised development costs for products currently in use**	**Capitalised development costs for products under development**	**Other intangible assets**	**Total**
Costs					
Balance at 1.1.2004	**97**	**11,904**	**5,957**	**2,464**	**20,422**
Additions	–	802	1,651	581	3,034
Disposals	–	–	–	(52)	(52)
Transfers	–	5,957	(5,957)	–	–
Foreign exchange differences	(6)	–	–	(10)	(16)
Balance at 31.12.2004	**91**	**18,663**	**1,651**	**2,983**	**23,388**
Amortization and impairment					
Balance at 1.1.2004	**–**	**(7,559)**	**–**	**(760)**	**(8,319)**
Amortisation	–	(1,853)	–	(565)	(2,418)
Disposals and transfers	–	–	–	61	61
Foreign exchange differences	–	–	–	9	9
Balance at 31.12.2004	**–**	**(9,412)**	**–**	**(1,255)**	**(10,667)**
Carrying amount at 31.12.2004	**91**	**9,251**	**1,651**	**1,728**	**12,721**

	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**

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

Amortisation of intangible assets of CZK 2,342 million (2004: CZK 2,227 million) is included in the cost of sales, CZK 54 million (CZK 2004: 45 million) in distribution expenses, and CZK 129 million (2004: CZK 146 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 year 2005 was 1% (2004: 1%). The discount rates used are pre-tax rates reflecting specific risks and characteristics of the segment where the Company operates. For the year 2005, the discount rate of 9.0% (2004: 11.2%) was used.

The following amounts were recognised as research and development expenses:

	2005	2004
Research and non-capitalised development costs	2,552	2,399
Amortisation of development costs	2,081	1,853
Research and development costs recognised in the income statement	**4,633**	**4,252**

4. Property, plant and equipment (CZK million)

Changes in property, plant and equipment between 2004 and 2005:

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Costs					
Balance at 1.1.2004	**20,670**	**46,075**	**26,471**	**7,652**	**100,868**
Additions	493	2,422	2,731	1,339	6,985
Disposals	(17)	(155)	(1,007)	(20)	(1,199)
Transfers	981	2,259	2,785	(6,025)	–
Foreign exchange differences	(7)	(3)	(26)	–	(36)
Balance at 31.12.2004	**22,120**	**50,598**	**30,954**	**2,946**	**106,618**
Depreciation and impairment					
Balance at 1.1.2004	**(4,944)**	**(29,707)**	**(19,770)**	**–**	**(54,421)**
Depreciation	(793)	(5,523)	(4,245)	–	(10,561)
Additions to cumulative impairment losses	(30)	(46)	(82)	–	(158)
Disposals and transfers	9	150	924	–	1,083
Foreign exchange differences	(1)	(2)	16	–	13
Balance at 31.12.2004	**(5,759)**	**(35,128)**	**(23,157)**	**–**	**(64,044)**
Carrying amount at 31.12.2004	**16,361**	**15,470**	**7,797**	**2,946**	**42,574**

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office 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**

In the years 2004 and 2005, the Group has neither owned nor purchased any assets under financial lease agreements.

Total depreciation of the buildings and equipment of CZK 8,765 million (2004: CZK 9,786 million) is included in the cost of sales, CZK 175 million (2004: CZK 126 million) in distribution expenses, and CZK 481 million (2004: CZK 649 million) in administrative expenses.

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

Balance at 31.12.2004	Within one year	After one year	Book value	Fair value
Loans to employees	25	166	191	191
Loans to Volkswagen Group companies	8,608	–	8,608	8,608
Tax receivables (excluding income taxes)	2,150	–	2,150	2,150
Positive fair value of derivatives	666	–	666	666
Other	433	–	433	433
Total	**11,882**	**166**	**12,048**	**12,048**

Balance at 31.12.2005	Within one year	After one year	Book value	Fair value
Loans to employees	20	193	213	213
Loans to Volkswagen Group companies	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
Other	380	–	380	380
Total	**14,430**	**193**	**14,623**	**14,623**

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.

Derivative financial instruments

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

	31.12.2005		31.12.2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	–	121	–	45
Foreign currency forwards – cash flow hedges	247	531	666	191
Foreign currency swaps – cash flow hedges	–	8	–	10
Total	**247**	**660**	**666**	**246**

Gains and losses on foreign currency forwards recognised in equity as of year-end 2005 will be released to the income statement at various dates up to two years after the balance sheet date.

Further details on the financial derivates are given in notes 1.10 and 1.20.

6. Inventories (CZK million)

Structure of the inventories	**31.12.2005**	**31.12.2004**
Raw materials, consumables and supplies	3,366	3,658
Work in progress	1,692	1,968
Finished products	5,111	5,997
Goods	2,923	3,033
Total inventories – gross	**13,092**	**14,656**
Accumulated impairment losses	(822)	(807)
Total inventories – net	**12,270**	**13,849**

The amount of inventories recognised as an expense during 2005 was CZK 164,656 million (2004: CZK 144,042 million).

Of the total inventories, CZK 2,498 million is recognised at net realisable value as at 31 December 2005 (31 December 2004: CZK 1,779 million).

7. Trade receivables (CZK million)

	31.12.2005	**31.12.2004**
Trade receivables from:		
Third parties	4,005	6,358
Related parties	2,219	1,709
Total	**6,224**	**8,067**

Allowances for impairment losses on trade receivables of CZK 495 million (31 December 2004: CZK 666 million) were already reflected in the amounts noted above.

8. Cash (CZK million)

Changes in cash between 2004 and 2005:

	31.12.2005	**31.12.2004**
Cash in hand	4	7
Bank accounts	1,172	6,466
Total	**1,176**	**6,473**

9. 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.

10. Reserves (CZK million)

	31.12.2005	31.12.2004
Currency translation reserve	(14)	(17)
Reserves for cash flow hedges	(510)	42
Other reserves	**(524)**	**25**
Statutory reserve fund	924	749
Accumulated profit	27,995	24,775
Retained earnings	**28,919**	**25,524**
Reserves total	**28,395**	**25,549**

Movement in reserve for cash flow hedges:

Balance at 1.1.2004	**(928)**
Fair value losses in year	386
Deferred tax on fair value losses	139
Transfers to net profit	587
Deferred tax on transfers to net profit	(142)
Balance at 31.12.2004	**42**
Fair value gains in year	(349)
Deferred tax on fair value gains	91
Transfers to net profit	(383)
Deferred tax on transfers to net profit	89
Balance at 31.12.2005	**(510)**

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 2005 (determined in accordance with IFRS) is going to be distributed 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.

11. Short- and long-term financial liabilities (CZK million)

Balance at 31.12.2004	< 1 year	Remaining term 1–5 years	> 5 years	Total
Bank loans	1,283	–	–	1,283
Bonds	4,995	2,993	1,993	9,981
Borrowings from VW Group companies	6,440	–	–	6,440
Total	**12,718**	**2,993**	**1,993**	**17,704**

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**

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	Amount in CZK ths.	Nominal value in CZK ths.	No. of bonds in pcs	Issue rate
2.tranche	CZ0003501181	3,000,000	100	30,000	100.00%
3.tranche	CZ0003501199	2,000,000	100	20,000	100.00%
Total		**5,000,000**		**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 interest rate based on carrying amount**	**Nominal amount**	**Carrying amount at 31.12.2004**			
					< 1 year	**1–5 years**	**> 5 years**	**Total**
CZK	fixed	<1 year	7.26%	5,000	4,995	–	–	4,995
CZK	floating	1–5 years	2.87%	3,000	–	2,993	–	2,993
CZK	floating	>5 years	2.95%	2,000	–	–	1,993	1,993
SKK	floating	<1 year	3.15%	105	105	–	–	105
SKK	floating	<1 year	3.42%	290	290	–	–	290
Other	floating/fixed	<1 year	7.03%	464	464	–	–	464
Other	floating/fixed	<1 year	6.98%	424	424	–	–	424
EUR	floating	<1 year	2.33%	6,440	6,440	–	–	6,440
Total financial liabilities				**17,723**	**12,718**	**2,993**	**1,993**	**17,704**

Currency	**Interest terms**	**Interest commitment ending**	**Weighted interest rate based on carrying amount**	**Nominal amount**	**Carrying amount at 31.12.2005**			
					< 1 year	**1–5 years**	**> 5 years**	**Total**
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**

Fair value of bonds was CZK 4,997 million as at 31 December 2005 (31 December 2004: CZK 10,171 million). Fair value of the bank loans and borrowings from VW Group approximates the carrying amounts.

12. Trade payables (CZK million)

Change in trade payables between 2004 and 2005:

	31.12.2005	**31.12.2004**
Trade payables to:		
Third parties	15,809	15,353
Related parties	3,046	4,799
Total	**18,855**	**20,152**

13. Other short- and long-term liabilities (CZK million)

Trend of other short- and long-term liabilities in 2004 and 2005:

Balance at 31.12.2004	**< 1 year**	**> 1 year**	**Carrying amount at 31.12.2004**
Negative fair values of financial derivates	246	–	246
Other tax liabilities	1,405	357	1,762
Payables to employees	562	–	562
Social insurance	238	–	238
Other liabilities	111	4	115
Total	**2,562**	**361**	**2,923**

Balance at 31.12.2005	**< 1 year**	**> 1 year**	**Carrying amount at 31.12.2005**
Negative fair values of financial derivates	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**

Further details on financial derivatives are given in Note 5.

Fair values correspond to the carrying amounts.

14. Deferred tax liabilities and assets (CZK million)

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

Balance at 31.12.2004	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	199	2,801	3,000
Deferred tax assets	185	31	216

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

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 derivates**	**Provisions**	**Tax deductible losses**	**Consolidation differences**	**Others**	**Total**
Balance at 1.1.2004	**(4,268)**	**(7)**	**–**	**–**	**–**	**(155)**	**(4,430)**
Debited/(credited) to the income statement	81	–	–	–	–	(29)	52
Charged to equity	–	(96)	–	–	–	93	(3)
Balance at 31.12.2004	**(4,187)**	**(103)**	**–**	**–**	**–**	**(91)**	**(4,381)**
Debited/(credited) to the income statement	(323)	–	–	–	–	93	(229)
Charged to equity	–	103	–	–	–	(27)	77
Balance at 31.12.2005	**(4,508)**	**–**	**–**	**–**	**–**	**(24)**	**(4,532)**

Deferred tax assets:

	Depreciation	**Financial derivates**	**Provisions**	**Tax deductible losses**	**Consolidation differences**	**Others**	**Total**
Balance at 1.1.2004	**7**	**–**	**1,283**	**57**	**180**	**48**	**1,575**
Credited/(debited) to the income statement	(8)	–	159	(27)	(56)	(44)	24
Exchange differences	1	–	1	(3)	–	(1)	(2)
Balance at 31.12.2004	**–**	**–**	**1,443**	**27**	**124**	**3**	**1,597**
Debited/(credited) 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**

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

Changes in non-current and current provisions between 2004 and 2005:

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee expenses	Other provisions	Total
Balance at 1.1.2004	**4,382**	**1,560**	**410**	**54**	**6,406**
Utilised	(2,729)	(1,139)	(59)	(220)	(4,147)
Additions	3,279	1,511	141	500	5,431
Interest costs	37	(41)	–	–	(4)
Reversals	–	(37)	(46)	(5)	(88)
Foreign exchange differences	(4)	(42)	(1)	–	(47)
Transfers	(26)	26	–	–	–
Balance at 1.1.2005	**4,939**	**1,838**	**445**	**329**	**7,551**
Utilised	(2,902)	(1,402)	(78)	(54)	(4,436)
Additions	4,373	1,806	176	283	6,638
Interest costs	2	12	–	–	14
Reversals	–	(126)	(35)	(1)	(162)
Foreign exchange differences	(4)	(40)	(2)	(1)	(47)
Balance at 31.12.2005	**6,408**	**2,088**	**506**	**556**	**9,558**

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

Balance at 31.12.2004	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	1,846	3,093	4,939
Provisions for obligations arising from sales	1,610	228	1,838
Provisions for employee expenses	160	285	445
Other provisions	305	24	329
Total	**3,921**	**3,630**	**7,551**

Balance at 31.12.2005	**< 1 year**	**> 1 year**	**Total**
Provisions for warranty claims	2,864	3,544	6,408
Provisions for obligations arising from sales	1,866	222	2,088
Provisions for employee expenses	161	345	506
Other provisions	556	–	556
Total	**5,447**	**4,111**	**9,558**

Provisions for other obligations arising from sales include provision for the disposal of end-of-life-vehicles, provision for sale discounts, sale bonuses and similar allowances incurred 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 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 proceedings expected in the near future. The Group provides for the probable expenses for existing legal and arbitration proceedings by means of a relevant provision.

16. Cash flow statement

The cash and cash equivalents contained in the cash flow statement comprise in addition to cash reported in the balance sheet also short-term loans to Volkswagen Group companies due within three months of CZK 11,200 million as at 31 December 2005 (31 December 2004: CZK 8,600 million; 1 January 2004: CZK nil). 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. This results in cash flows from operating activities after accounting for 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 outflows and inflows of cash and cash equivalents from dividend payments, redemption of bonds, as well as inflows and outflows of payments of rendered loans and other financial loans.

17. Sales (CZK million)

Structure of sales in the years 2004 and 2005:

	2005	**2004**
Cars	164,766	145,729
Spare parts and accessories	12,835	12,080
VCI (supplies of components within Volkswagen Group)	6,833	3,776
Other sales	2,948	2,080
Total	**187,382**	**163,665**

18. Other operating income (CZK million)

Structure of other operating income in the years 2004 and 2005:

	2005	**2004**
Foreign exchange gains	1,661	1,616
Income from foreign currency trades	834	573
Gains on non-current assets disposal	28	11
Other	1,504	1,314
Total	**4,027**	**3,514**

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

19. Other operating expenses (CZK million)

Structure of other operating expenses in the years 2004 and 2005:

	2005	2004
Foreign exchange losses	1,141	1,170
Expenses from foreign currency trades	759	1,057
Receivables impairment losses and write-offs	69	205
Other	555	693
Total	**2,524**	**3,125**

20. Financial result (CZK million)

Structure of financial result in the years 2004 and 2005:

	2005	2004
Interest income	449	317
Income from interest rate swaps	18	104
Other financial income	15	12
Financial income total	**482**	**433**
Interest expenses	(1,236)	(1,385)
Expenses from interest rate swaps	(19)	(100)
Other financial expenses	(14)	–
Financial expenses total	**(1,269)**	**(1,485)**
Net financial result	**(787)**	**(1,052)**

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

21. Income tax (CZK million)

	2005	2004
Current tax expense – domestic	2,062	1,475
Current tax expense – abroad	258	75
Current tax expense – total	**2,320**	**1,550**
of which: overaccrual of prior period	(34)	(196)
Deferred tax income – domestic	41	(118)
Deferred tax income – abroad	(181)	42
Deferred tax income	**(140)**	**(76)**
Income tax total	**2,180**	**1,474**

Statutory income tax rate in the Czech Republic for the 2005 assessment period was 26% (2004: 28%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory rate. In fiscal year 2005, deferred taxes were measured at a tax rate of 24% (2004: 24.13%) 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 38.3%.

No tax benefits from tax loss carry-forwards from previous years were realised in 2004. Previously unused tax loss carry-forwards amounted to CZK 69 million. Tax loss carry-forwards can be used indefinitely. 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):

	2005	2004
Profit before tax	10,073	4,843
Expected income tax expense	**2,619**	**1,356**
Effect of different tax rates outside the Czech Republic	47	11
Proportion of taxation relating to:		
Tax exempt income	(51)	(58)
Expenses not deductible for tax purposes	443	341
Other permanent differences	(176)	142
Tax allowances and investment tax credits	(510)	(242)
Prior-period current tax expense	(34)	(196)
Effect of tax rate changes	(144)	(6)
Other taxation effects	(14)	126
Effective income tax expense	**2,180**	**1,474**
Effective income tax rate	22%	29%

22. Investment incentives

Based on a resolution of the Ministry of Industry and Trade of the Czech Republic, the Company received the declaration of investment incentives to support the following projects:

- In accordance with the Investment Incentives Act, based on resolution dated 27 June 2005 the Company was granted an investment incentive for its project Roomster in Kvasiny in the form of investment tax credit and the transfer of technically equipped land at a reduced price. Total maximum amount of investment incentive of CZK 427.5 million represents 14.4% of the total eligible invested costs related to the investment intent.
- In accordance with the provisions of the Framework program for support of the technology parks and strategic services centres, based on resolution dated on 3 June 2005, the Company was granted an investment incentive related to the planned investment in development and technology centre in Česana. The investment incentive is provided in the form of subsidy of entrepreneurial activities up to 15% of the total eligible costs and in the form of a subsidy of employee training and retraining costs up to an additional 35% or 60% (based on the type of training or retraining) of the total eligible costs related to the project. Maximum amount of subsidy of employee training and retraining costs is also capped at CZK 150,000 per one indeed newly created employment position.

In 2005, the Company utilised the investment incentives in form of investment tax credit in amount of CZK 60 million. The Company did not receive any other grant related to investment incentives in 2005. The Company assumes meeting of all criteria related to provision of the investment incentives.

Subsidies of entrepreneurial activities and of employee training and retraining costs will be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

23. 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. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Group has provided guarantees and other contingent liabilities to third parties in the ordinary course of business in the amount of CZK 79 million (31 December 2004: CZK 120 million).

The financial authorities are authorised to carry out on 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.

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

Cash outflows for non-current tangible and intangible assets committed to at the balance sheet date that have not been realised as of that date are as follows:

	Payable until year 2006	**Payable 2007–2010**	**31.12.2005**	**31.12.2004**
Obligo – investment commitments	4,033	1,132	5,165	2,681
Leasing installments	56	132	188	15

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.

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

	2005	**2004**
Material costs – raw materials and other supplies, goods and services	**133,086**	**118,047**
Personal costs	**11,432**	**9,735**
Wages	8,850	7,393
Social insurance and other personal costs	2,582	2,342
Number of employees	**26,486**	**24,691**

26. 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)

	2005	2004
Parent company		
VOLKSWAGEN AG	2,983	2,279
Companies controlled by parent company		
Volkswagen Sachsen GmbH	259	397
VOLKSWAGEN Group United Kingdom Ltd.	12,835	12,202
Groupe VOLKSWAGEN France s.a.	6,169	4,656
VOLKSWAGEN SLOVAKIA, a.s.	1,702	1,279
Volkswagen Navarra, S.A.	1,559	955
Svenska VOLKSWAGEN AB	3,708	2,635
Import VOLKSWAGEN Group s.r.o.	618	617
VW Group Rus OOO	2,071	650
Volkswagen do Brasil Ltda.	1,798	58
AUDI HUNGARIA MOTOR Kft.	1	12
AUDI AG	3	59
SEAT, S.A.	527	504
AUTOGERMA S.p.A.	6,219	6,123
Volkswagen-Audi España S.A.	7,998	6,299
Volkswagen Bruxelles S.A.	86	–
EC GmbH	840	–
Gearbox del Prat, S.A.	11	–
Other related parties		
ROLLS-ROYCE & BENTLEY MOTOR CARS Limited	8	5
Other related parties	253	287
Total	**49,648**	**39,017**

Besides sales to related parties stated above the Company also realised in 2005 revenue from licence fees of CZK 597 million (2004: CZK nil) from Shanghai Volkswagen Automotive Co. Ltd., a joint venture of the parent company VOLKSWAGEN AG.

Purchases from related parties (CZK million)

	2005	2004
Parent company		
VOLKSWAGEN AG	23,843	21,143
Companies controlled by parent company		
Volkswagen Sachsen GmbH	2,643	2,758
Volkswagen Versicherungsvermitlungs GmbH	173	137
VOLKSWAGEN Versicherungsdienst GmbH	20	117
VOLKSWAGEN Group United Kingdom Ltd.	61	–
AUTO VISION GmbH	4	–
IAV Ingenieurgesellschaft GmbH	31	6
Groupe VOLKSWAGEN France s.a.	358	510
VOLKSWAGEN SLOVAKIA, a.s.	39	128
AUDI AG	285	191
VOLKSWAGEN Vertriebsbetreungs GmbH	7	4
Volkswagen Bank GmbH, Braunschweig	421	402
VOLKSWAGEN Original Teile GmbH	19	2
Vertriebszentrum Original Teile GmbH	–	23
AUDI HUNGARIA MOTOR Kft.	10,499	7,482
Import VOLKSWAGEN Group s.r.o.	138	9
VW Group Rus OOO	–	1
ŠkoFIN s.r.o.	459	117
Volkswagen Navarra, S.A.	34	39
Svenska VOLKSWAGEN AB	28	3
SEAT, S.A.	1,271	1,443
AUTOGERMA S.p.A.	223	69
Gearbox del Prat, S.A.	10	28
Volkswagen-Audi España S.A.	8	–
Volkswagen Poznan Sp. Z o.o.	236	186
Europcar Fleet Services a.s.	3	16
Volkswagen do Brasil Ltda.	5	5
VOTEX, GmbH	42	43
Volkswagen Bordnetze GmbH	83	39
Autostadt GmbH	21	22
Volkswagen Leasing GmbH	43	31
Europcar Fleet Service, Braunschweig	–	19
Volkswagen de Mèxico S.A., de C.V.	57	48
Europcar Autovermitung GmbH	301	531
Volkswagen Immobilien Service GmbH	–	8
Volkswagen Transport GmbH	1,756	1,491
Volkswagen of South Africa (Pty.) Ltd.	1	1
VOLKSWAGEN OF AMERICA INC.	18	34
Volkswagen Group Singapore Pte. Ltd.	–	3
Volkswagen Group Japan KK	2	1
Volkswagen Bruxelles S.A.	3,142	8,127
Volkswagen China Investment Comp. Ltd.	4	–
ŠKO-ENERGO, s.r.o.	1,551	1,549
gedas ČR, s.r.o.	192	127
e4t electronics for transportation s.r.o.	39	26
ŠkoLease s.r.o.	154	102
Coordination Center VW NV/SA Belgium	–	307
VW Finance Belgium SA	238	–
Other related parties		
Other related parties	57	42
Total	**48,519**	**47,370**

Receivables from related parties (CZK million)

	31.12.2005	31.12.2004
Parent company		
VOLKSWAGEN AG	538	134
Companies controlled by parent company		
Volkswagen Sachsen GmbH	5	19
VOLKSWAGEN Group United Kingdom Ltd.	58	–
Groupe VOLKSWAGEN France s.a.	7	89
VOLKSWAGEN SLOVAKIA, a.s.	114	81
Volkswagen Navarra, S.A.	79	70
Svenska VOLKSWAGEN AB	42	34
Volkswagen do Brasil Ltda.	184	49
Import VOLKSWAGEN Group s.r.o.	38	55
VW Group Rus OOO	421	125
Volkswagen-Audi España S.A.	68	86
ŠkoFIN s.r.o.	248	335
AUDI AG	3	9
AUDI HUNGARIA MOTOR Kft.	–	1
SEAT, S.A.	104	93
AUTOGERMA S.p.A.	13	75
Gearbox del Prat, S.A.	3	1
Other related parties		
ROLLS-ROYCE & BENTLEY MOTOR CARS Limited	–	5
Europcar Fleet Services a.s.	–	40
Other related parties	294	408
Total	**2,219**	**1,709**

In addition to receivables stated in the table above, the Company provided as at 31 December 2005 loans to Volkswagen AG of CZK 8,900 million (31 December 2004: CZK 7,600 million), ŠkoFIN of CZK 2,000 million (31 December 2004: CZK 1,000 million) and Import Volkswagen of CZK 300 million (31 December 2004: CZK nil). Interest from these loans outstanding as at 31 December 2005 was CZK 8 million (31 December 2004: CZK 8 million).

Liabilities to related parties (CZK million)

	31.12.2005	31.12.2004
Parent company		
VOLKSWAGEN AG	994	2,030
Companies controlled by parent company		
Volkswagen Sachsen GmbH	146	285
Volkswagen Poznan Sp. Z o.o.	13	17
VOLKSWAGEN Group United Kingdom Ltd.	167	241
Groupe VOLKSWAGEN France s.a.	110	261
Volkswagen de Mèxico S.A., de C.V.	15	4
VOLKSWAGEN Transport GmbH	269	231
VOLKSWAGEN SLOVAKIA a.s.	2	4
Volkswagen do Brasil Ltda.	1	1
Volkswagen Navarra, S.A.	2	4
VW Group Rus OOO	–	53
Svenska VOLKSWAGEN AB	4	3
ŠKO-FIN, s.r.o.	65	2
Volkswagen-Audi España S.A.	2	14
AUDI AG	31	67
AUDI HUNGARIA MOTOR Kft.	822	852
AUTOGERMA S.p.A.	81	238
SEAT, S.A.	10	19
gedas ČR, s.r.o.	117	72
Import Volkswagen Group s.r.o.	2	–
Volkswagen Bank GmbH	20	15
Volkswagen Original Teile Logistic GmbH	5	–
VOTEX, GmbH	4	5
Volkswagen Leasing GmbH	16	–
Coordination Center VW NV/SA Belgium	–	6,440
VW Finance Belgium SA	1,799	–
Other related parties		
Other related parties	148	381
Total	**4,845**	**11,239**

Information on key management personnel remuneration (CZK million)

	2005	2004
Salaries and other short-term employee benefits	339	289
Post-employment benefits	–	–
Other long-term employee benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
Total	**339**	**289**

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.

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 2005, the key management personnel included 85 persons (2004: 81).

27. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 32 million (2004: CZK 28 million) and covered the following services.

	2005	2004
Audit and other assurance services	23	19
Tax and related services	3	6
Other advisory services	6	3
Total	**32**	**28**

28. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the consolidated financial statements for the year ended 31 December 2005.

29. 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 Europcar; 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).

30. 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:
– Technical development;
– Production and logistic;
– Quality;
– 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.

Mladá Boleslav, 24 January 2006

Detlef Wittig
Chairman of the
of the Board of Directors

Holger Kintscher
Member of the
Board of Directors
Commercial Affairs

Jana Šrámová
Director of Accounting

Jan Dušek
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

Report of Independent Auditors to the Shareholders of ŠKODA AUTO a.s.

We have audited the accompanying balance sheet of ŠKODA AUTO a.s. ("the Company") as of 31 December 2005, the related statements of income, changes in shareholders' equity and cash flows for the year then ended ("the financial statements"). The financial statements, which include description of the Company's activities, and underlying accounting records are the responsibility of the Company's Board of Directors. 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, International Standards on Auditing and related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of the Company as at 31 December 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

24 January 2006

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner

Pavel Kulhavý
Auditor, Licence No. 1538

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

Balance Sheet as at 31.12.2005
and Opening Balance Sheet as at 1.1.2004

(CZK million)

ASSETS	Note	31.12.2005	31.12.2004	1.1.2004
Intangible assets	3	13,088	12,602	11,964
Property, plant and equipment	4	40,954	42,236	46,134
Investments in subsidiaries	5	608	608	266
Other receivables and financial assets	6	373	346	385
Non-current assets		**55,023**	**55,792**	**58,749**
Inventories	7	8,455	9,232	7,881
Trade receivables	8	5,520	7,048	7,889
Other receivables and financial assets	6	14,223	11,600	5,231
Cash	9	758	4,534	2,495
Current assets		**28,956**	**32,414**	**23,496**
TOTAL ASSETS		**83,979**	**88,206**	**82,245**

LIABILITIES	Note	31.12.2005	31.12.2004	1.1.2004
Share capital	10	16,709	16,709	16,709
Share premium		1,578	1,578	1,578
Reserves	11	28,196	25,860	24,799
Equity		**46,483**	**44,147**	**43,086**
Non-current financial liabilities	12	4,990	4,986	10,525
Deferred tax liabilities	15	2,817	2,982	3,162
Non-current provisions	16	3,878	3,368	2,464
Non-current liabilities		**11,685**	**11,336**	**16,151**
Current financial liabilities	12	898	7,734	2,260
Trade payables	13	18,670	19,904	15,983
Other current liabilities	14	1,630	1,138	1,348
Current tax payables		1,003	849	404
Current provisions	16	3,610	3,098	3,013
Current liabilities		**25,811**	**32,723**	**23,008**
TOTAL LIABILITIES		**83,979**	**88,206**	**82,245**

The notes on pages 105 to 133 are an integral part of these financial statements.

Income Statement for the Year Ended 31.12.2005

(CZK million)

	Note	2005	2004
Sales	**18**	**177,822**	**155,396**
Cost of goods sold		159,187	140,996
Gross profit		**18,635**	**14,400**
Distribution expenses		6,558	6,137
Administrative expenses		3,329	3,157
Other operating income	19	3,589	3,147
Other operating expenses	20	2,333	2,964
Operating profit		**10,004**	**5,289**
Financial income	21	450	360
Financial expenses	21	1,014	1,225
Financial result		**(564)**	**(865)**
Profit before income tax		**9,440**	**4,424**
Income tax expense/(income)	22	2,077	1,291
– current		2,062	1,475
– deferred		15	(184)
Profit for the year		**7,363**	**3,133**

The notes on pages 105 to 133 are an integral part of these financial statements.

Statement of Changes in Equity for the Year Ended 31.12.2005

(CZK million)

	Note	Share capital	Share premium	Reserves: Retained earnings	Reserves: Reserves for cash flow hedges*	Total equity
Balance at 1.1.2004		**16,709**	**1,578**	**25,727**	**(928)**	**43,086**
Profit for the year		–	–	3,133	–	**3,133**
Dividends paid		–	–	(3,050)	–	**(3,050)**
Financial derivatives**	11	–	–	–	978	**978**
Balance at 31.12.2004		**16,709**	**1,578**	**25,810**	**50**	**44,147**
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**	11	–	–	–	(573)	**(573)**
Balance at 31.12.2005		**16,709**	**1,578**	**28,719**	**(523)**	**46,483**

* Net of deferred tax from financial derivatives.

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

The notes on pages 105 to 133 are an integral part of these financial statements.

Cash Flow Statement for the Year Ended 31.12.2005

(CZK million)

	Note	2005	2004
Cash and cash equivalents at 1.1.	**17**	**13,134**	**2,495**
Profit before tax		9,440	4,424
Depreciation of non-current assets *	3,4	12,202	13,038
Change in provisions	16	1,022	989
Gain on disposal of non-current assets		(51)	(3)
Net interest expense	21	601	856
Change in inventories	7	777	(1,351)
Change in receivables		1,030	3,487
Change in liabilities		(1,259)	3,416
Income tax paid from operating activities	22	(1,908)	(1,029)
Interest paid		(897)	(963)
Interest received		464	300
Cash flows from operating activities		**21,421**	**23,164**
Purchases of non-current assets	3, 4	(8,567)	(7,421)
Additions to capitalised development costs	3	(2,861)	(2,453)
Acquisition of financial investments		–	(280)
Proceeds from sale of non-current assets		129	197
Cash flows from investing activities		**(11,299)**	**(9,957)**
Cash flows netto (operating and investing activities)		**10,122**	**13,207**
Dividends paid		(4,454)	(3,050)
Change in liabilities from factoring	12	(1,844)	482
Repayment of bonds	12	(5,000)	–
Cash flows from financing activities		**(11,298)**	**(2,568)**
Net change in cash and cash equivalents		**(1,176)**	**10 639**
Cash and cash equivalents at 31.12.	**17**	**11,958**	**13,134**

* Including additions to cumulative impairment losses.

The notes on pages 105 to 133 are an integral part of these financial statements.

Notes to the Separate Financial Statements 2005

1. Summary of significant accounting policies and principles

1.1 Basis of preparation of financial statements

These financial statements are separate financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2005 and relate to the consolidated financial statements of ŠKODA AUTO a.s. and its subsidiaries for the year ended 31 December 2005.

The separate financial statements of ŠKODA AUTO a.s. ("the Company") for the year ended 31 December 2005, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by 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.

1.2 Changes resulting from first time adoption of IFRS

Until 31 December 2004, the financial statements of the Company were prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and Czech Accounting Standards ("CZ GAAP"). Within Regulation No. 500/2002 Coll., the Company has been excluded from the obligation to set up consolidated financial statements, as it was included in the consolidation of Volkswagen AG Group as a controlled entity. The consolidated financial statements of Volkswagen AG have been prepared in accordance with IFRS.

Resulting from the changes in the relevant legislation, the Company as an issuer of listed bonds is obliged for the first time to prepare financial statements as at 31 December 2005, in accordance with IFRS in line with IFRS 1. This change involves the obligation to prepare and publish the consolidated financial statements.

In the past, the Company prepared financial information in accordance with IFRS for the purpose of inclusion in the consolidated financial statements of VOLKSWAGEN AG. In accordance with IFRS 1, paragraph 24(a), when preparing these financial statements, the Company measured its assets and liabilities at the carrying amounts used for the purposes of the consolidated financial statements of VOLKSWAGEN AG.

Early adoption of revised and new standards:
In 2004, VOLKSWAGEN AG early adopted the IFRS below, which are relevant to the Company's operations. Consequently, comparative information in these financial statements has been prepared in accordance with the requirements of these standards:
IAS 1 (revised 2003) Presentation of Financial Statements;
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates;
IAS 36 (revised 2004) Impairment of Assets;
IAS 38 (revised 2004) Intangible Assets; and
IFRS 3 (revised 2004) Business Combinations.

In 2005, VOLKSWAGEN AG applied the standards listed below, which are relevant to the Company's operations. Consequently, these financial statements are prepared in accordance with these standards:
IAS 2 (revised 2003) Inventories;
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors;
IAS 10 (revised 2003) Events after the Balance Sheet Date;
IAS 16 (revised 2003) Property, Plant and Equipment;
IAS 17 (revised 2003) Leases;
IAS 24 (revised 2003) Related Party Disclosures;
IAS 27 (revised 2003) Consolidated and Separate Financial Statements;
IAS 28 (revised 2003) Investments in Associates;
IAS 31 (revised 2003) Interests in Joint Ventures;
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation;
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement;
IFRS 2 (revised 2004) Share-based Payments; and
IFRS 5 (revised 2004) Non-current Assets Held for Sale and Discontinued Operations.

From the standards applicable for the year 2005, the following standards are applied prospectively, i.e. comparative information in these statements has not been compiled in accordance with the relevant requirements of these standards:
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement, paragraph 105–108; and
IFRS 5 (revised 2004) Non-current Assets Held for Sale and Discontinued Operations.

Differences between IFRS and CZ GAAP

The differences in the profit for the year and equity according to IFRS and CZ GAAP are caused by different accounting methodology, mainly in the following areas:

- In accordance with IAS 38, development costs are recognised as intangible assets if it is probable that manufacture of the products being developed will generate probable future economic benefits to the company. In accordance with CZ GAAP, development costs are expensed to the income statement as incurred.
- Provisions for deferred maintenance of tangible fixed assets are created in accordance with CZ GAAP. These provisions do not meet the recognition criteria of IFRS.
- Differences in the amounts of deferred taxes arise from differences in non-current assets and development costs.
- The non-current assets are depreciated over their estimated useful lives. For the purpose of the consolidated financial statements in accordance with IFRS, all estimated useful lives are based on the accounting guidelines of the parent company VOLKSWAGEN AG. The estimated useful lives of some non-current assets acquired in the past as used for CZ GAAP purposes differed from estimated useful lives as set in the accounting guidelines of the parent company VOLKSWAGEN AG. This results in differences in the amount of the depreciation and accumulated depreciation according to CZ GAAP and IFRS.
- Other differences exist particularly in the following areas – impairment of fixed assets, complex prepaid expenses, provision discounting and redemption of revaluation funds related to financial derivatives.

Reconciliation of IFRS and CZ GAAP

Reconciliation of the net profit according to CZ GAAP to net profit according to IFRS for the year ended 31.12.2004 (CZK million):

	2004
Net profit – CZ GAAP	**3,497**
Capitalisation and amortisation of development costs	576
Depreciation of non-current assets	(631)
Financial derivatives – redemption of revaluation funds	(102)
Other effects	(207)
Profit after tax – IFRS	**3,133**

Reconciliation of the equity according to CZ GAAP to equity according to IFRS (CZK million):

	31.12.2004	1.1.2004
Equity – CZ GAAP	32,844	31,758
Capitalisation and amortisation of development costs	10,901	10,324
Depreciation of non-current assets	4,876	5,507
Deferred tax	(3,952)	(4,209)
Other effects	(522)	(294)
Separate equity – IFRS	**44,147**	**43,086**

Other effects include discounting of provisions, redemption of revaluation funds related to financial derivatives, provisions for deferred maintenance, impairment of assets and complex prepaid expenses.

Reconciliation of the cash flows according to CZ GAAP to cash flows according to IFRS for the year 2004 (CZK million):

	Cash flows CZ GAAP	Diff.*	Cash flows IFRS
Cash and cash equivalents at 1.1.	**2,495**	–	**2,495**
Cash flows from operating activities	22,400	764	23,164
Cash flows from investing activities	(17,311)	7,354	(9,957)
Cash flow from financing activities and other differences	(3,050)	482	(2,568)
Change in cash and cash equivalents	**2,039**	**8,600**	**10,639**
Cash and cash equivalents at 31.12.	**4,534**	**8,600**	**13,134**

* Difference is due to different definition of cash and cash equivalents (Note 17), different classification of items and different accounting methodology (e.g. development costs).

1.3 Foreign currency translation

Functional and presentation currency
Items included in the financial statements of 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. 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 intangible assets 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 developed by the units, 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:

– Research & development	5–10 years according to the product life cycle
– Software	3 years
– Royalties	8 years
– Other intangible fixed assets	5 years

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 Investments

The Company classifies its investments 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. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss
This category includes 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 according to accounting principles. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(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 included in trade and other receivables 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 Company's management has the positive intention and ability to hold to maturity. During the year, 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 investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments 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. The fair values of quoted investments are based on current bid prices. If the market for a equity investments is not active or equity investments are not quoted in the capital market and it is not possible to determine fair value, these are valued at purchase costs. In this case, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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 included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of 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 gains and losses.

(e) Investments in subsidiaries
Investments in subsidiaries are carried in these separate financial statements at cost.

1.8 Financial derivates

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 fulfilling the requirement of a hedge accounting. The Company uses derivatives to hedge interest rate and currency risks.

The Company uses derivatives to hedge future cash flows. The hedged items are as follows:
– Fixed commitments (hedge of currency risk);
– Highly probable future transactions (cash flow hedges); and
– Cash flow from selected liabilities.

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 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 rate. The fair value of forward foreign exchange contracts is determined using 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 segment of changes in the fair value of financial derivates that are designated and qualify as cash flow hedges) is also recognised directly in equity.

The Company 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.

The value of the inventories is reduced by the impairment loss, which reflects all risks of obsolete and redundant raw materials and excessive spare parts.

Costs also include transport, customs duty, and packaging. A weighted-average calculation is used to account for the consumption of materials and for all sales.

Inventories generated from own production, i.e. work in progress and finished goods, are stated at own production costs. 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.

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 minimum 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 recorded at amortised cost in the balance sheet. Differences between historical cost and the repayment amount are amortised using the effective interest method. Current liabilities are recognised at their repayment or settlement value.

1.14 Revenue and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts.

Sales from the goods sold or services provided are recognised only when the goods have been delivered or the services rendered, that is, when the risk has passed to the customer.

Costs of sales include production costs, costs of goods purchased for resale, and additions to warranty provisions. Research and development costs not eligible for capitalisation in the period 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.

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

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 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.

1.17 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions are continuously assessed by management. The estimates and assumptions are based on historical experience and other factors, including the realistic assessment of future developments. 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 repairs
The Company recognises provisions for warranty repairs 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 repairs 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 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. Provision for disposal is included within Provisions for obligations arising from sales (Note 16).

Income taxes
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.

Provision for employee benefits
The Company recognises the provision for employee benefits on the basis of actuarial estimates. The basis for that is the principle of equivalence (principle of justice). The algorithm for the provision's calculation itself depends on the duration of employment (long-service awards, retirements) or on demographic facts (death of employee) and further on the probability of the benefits that are awarded by the Company. The Company's personal statistics are essential for the determination of the provision's value. The determination of the employee benefits provision's value is set up on the basis of probability that the employee will obtain this benefit.

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.

1.18 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 2005, operations 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 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 the netting principle in line with a framework defined in advance. 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 borrowings used to finance its investments. 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 < 1 year	1–5 years	> 5 years	Nominal amount total 31.12.2005	Nominal amount total 31.12.2004
Interest rate swaps	–	5,000	–	5,000	5,000
Currency forwards	66,026	4,088	–	70,114	16,266
Currency swaps	525	–	–	525	1,590

2. Segment reporting

Primary reporting format – business segments
At the end of 2005, 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.

2004	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – according to customer location	24,127	90,010	33,662	7,597	155,396
Costs incurred to acquire segment assets	9,929	–	–	–	9,929
Assets – according to their location	88,206	–	–	–	88,206

2005	Czech Republic	Western Europe	Central and Eastern Europe	Unallocated*	Total
Sales – according to their location	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

* 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)

Changes in intangible assets between 2004 and 2005:

	Capitalised development costs for products currently in use	Capitalised development costs for products under development	Other intangible assets	Total
Costs				
Balance at 1.1.2004	**11,904**	**5,957**	**2,288**	**20,149**
Additions	802	1,651	565	3,018
Disposals	–	–	(52)	(52)
Transfers	5,957	(5,957)	–	–
Balance at 31.12.2004	**18,663**	**1,651**	**2,801**	**23,115**
Amortization and impairment				
Balance at 1.1.2004	**(7,559)**	**–**	**(626)**	**(8,185)**
Amortisation	(1,853)	–	(536)	(2,389)
Disposals	–	–	61	61
Balance at 31.12.2004	**(9,412)**	**–**	**(1,101)**	**(10,513)**
Carrying amount at 31.12.2004	**9,251**	**1,651**	**1,700**	**12,602**

	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)	–	0
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**

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

Amortisation of intangible assets of CZK 2,342 million (2004: CZK 2,227 million) is included in the cost of sales, CZK 41 million (CZK 2004: 21 million) in distribution expenses, and CZK 121 million (2004: CZK 141 million) in administrative expenses.

The following amounts were recognised as research and development expenses:

	2005	2004
Research and non-capitalised development costs	2,552	2,399
Amortisation of development costs	2,081	1,853
Research and development costs recognised in the income statement	**4,633**	**4,252**

4. Property, plant and equipment (CZK million)

Changes in property, plant and equipment between 2004 and 2005:

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Payments on account and assets under construction	Total
Costs					
Balance at 1.1.2004	**20,622**	**45,982**	**26,089**	**7,560**	**100,253**
Additions	458	2,414	2,676	1,308	6,856
Disposals	(17)	(153)	(1,007)	–	(1,177)
Transfers	907	2,242	2,775	(5,924)	–
Balance at 31.12.2004	**21,970**	**50,485**	**30,533**	**2,944**	**105,932**
Depreciation and impairment					
Balance at 1.1.2004	**(4,918)**	**(29,676)**	**(19,525)**	**–**	**(54,119)**
Depreciation	(785)	(5,508)	(4,198)	–	(10,491)
Additions to cumulative impairment losses	(30)	(46)	(82)	–	(158)
Disposals	6	151	915	–	1 072
Transfers	4	(4)	–	–	–
Balance at 31.12.2004	**(5,723)**	**(35,083)**	**(22,890)**	**–**	**(63,696)**
Carrying amount at 31.12.2004	**16,247**	**15,402**	**7,643**	**2,944**	**42,236**

	Land and buildings	Technical equipment and machinery	Other equipment, operating and office 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**

In the years 2004 and 2005, the Company has neither owned nor purchased any assets under financial lease agreements.

Total depreciation of the buildings and equipment of CZK 8,747 million (2004: CZK 9,779 million) is included in the cost of sales, CZK 153 million (2004: CZK 94 million) in distribution expenses, and CZK 452 million (2004: CZK 618 million) in administrative expenses.

5. Investments in subsidiaries (CZK million)

The Company has investments in the following subsidiaries:

	Country of incorporation	Book value 31.12.2005	31.12.2004	Shareholding %
Subsidiaries:				
ŠkodaAuto Deutschland GmbH	Germany	198	198	100
ŠKODA AUTO Slovensko, s.r.o.	Slovakia	49	49	100
Skoda Auto Polska S.A.	Poland	1	1	51
Skoda Auto India Private Ltd.	India	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 27 million in 2005 (2004: CZK 17 million).

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

Balance at 31.12.2004	Within one year	After one year	Book value	Fair value
Loans to employees	25	166	191	191
Loans to Volkswagen Group companies	8,608	–	8,608	8,608
Tax receivables (excluding income taxes)	2,065	–	2,065	2,065
Positive fair value of derivatives	666	–	666	666
Available for sale financial assets	–	180	180	180
Other	236	–	236	236
Total	**11,600**	**346**	**11,946**	**11,946**

Balance at 31.12.2005	Within one year	After one year	Book value	Fair value
Loans to employees	20	193	213	213
Loans to Volkswagen Group companies	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**

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 in payments are accounted for by means of accumulated impairment losses recognised.

Derivative financial instruments

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

	31.12.2005		31.12.2004	
	Assets	Liabilities	Assets	Liabilities
Interest rate swaps – cash flow hedges	–	121	–	45
Foreign currency forwards – cash flow hedges	229	527	666	183
Forreign currency swaps – cash flow hedges	–	8	–	10
Total	**229**	**656**	**666**	**238**

Gains and losses on foreign currency forwards recognised in equity as of year-end 2005 will be released to the income statement at various dates up to two years after the balance sheet date.

Further details on the financial derivates are given in notes 1.8 and 1.18.

7. Inventories (CZK million)

Structure of the inventories	**31.12.2005**	**31.12.2004**
Raw materials, consumables and supplies	2,760	3,339
Work in progress	1,641	1,938
Finished products	3,043	2,823
Goods	1,595	1,701
Total inventories – gross	**9,039**	**9,801**
Accumulated impairment losses	(584)	(569)
Total inventories – net	**8,455**	**9,232**

The amount of inventories recognised as an expense during 2005 was CZK 160,100 million (2004: CZK 140,784 million).

Of the total inventories, CZK 1,725 million is recognised at net realisable value as at 31 December 2005 (31 December 2004: CZK 1,190 million).

8. Trade receivables (CZK million)

	31.12.2005	**31.12.2004**
Trade receivables from:		
Third parties	2,888	4,698
Subsidiaries	704	749
Other related parties	1,928	1,601
Total	**5,520**	**7,048**

Allowances for impairment losses on trade receivables of CZK 422 million (2004: CZK 553 million) were already reflected in the amounts noted above.

9. Cash (CZK million)

Changes in cash between 2004 and 2005:

	31.12.2005	31.12.2004
Cash in hand	3	2
Bank accounts	755	4,532
Total	**758**	**4,534**

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)

	31.12.2005	31.12.2004
Reserve for cash flow hedges	(523)	50
Other reserves	**(523)**	**50**
Statutory reserve fund	924	749
Accumulated profit	27,795	25,061
Retained earnings	**28,719**	**25,810**
Reserves total	**28,196**	**25,860**

Movement in reserve for cash flow hedges:

Balance at 1.1.2004	**(928)**
Fair value losses in year	394
Deferred tax on fair value losses	139
Transfers to net profit	587
Deferred tax on transfers to net profit	(142)
Balance at 31.12.2004	**50**
Fair value gains in year	(378)
Deferred tax on fair value gains	91
Transfers to net profit	(375)
Deferred tax on transfers to net profit	89
Balance at 31.12.2005	**(523)**

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 2005 (determined in accordance with IFRS) is going to be distributed based on the decision of the Company's annual general meeting.

12. Short- and long-term financial liabilities (CZK million)

Balance at 31.12.2004	< 1 year	Remaining term 1–5 years	> 5 years	Total
Bonds	4,995	2,993	1,993	9,981
Borrowings from Volkswagen Group companies	2,739	–	–	2,739
Total	**7,734**	**2,993**	**1,993**	**12,720**

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

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	Amount in CZK ths.	Nominal value in CZK ths.	No. of bonds in pcs	Issue rate
2.tranche	CZ0003501181	3,000,000	100	30,000	100.00%
3.tranche	CZ0003501199	2,000,000	100	20,000	100.00%
Total		**5,000,000**		**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 interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2004			
					< 1 year	1–5 years	> 5 years	Total
CZK	fixed	<1 year	7.26%	5,000	4,995	–	–	4,995
CZK	floating	1–5 years	2.87%	3,000	–	2,993	–	2,993
CZK	floating	>5 years	2.95%	2,000	–	–	1,993	1,993
EUR	floating	<1 year	2.33%	2,739	2,739	–	–	2,739
Total financial liabilities				**12,739**	**7,734**	**2,993**	**1,993**	**12,720**

Currency	Interest terms	Interest commitment ending	Weighted interest rate based on carrying amount	Nominal amount	Carrying amount at 31.12.2004			
					< 1 year	1–5 years	> 5 years	Total
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**

Fair value of bonds was CZK 4,997 million as at 31 December 2005 (31 December 2004: CZK 10,171 million). Fair value of the borrowings from VW Group approximates the carrying amounts.

13. Trade payables (CZK million)

Change in trade payables between 2004 and 2005:

	31.12.2005	31.12.2004
Trade payables to:		
Third parties	15,018	14,921
Subsidiaries	766	293
Other related parties	2,886	4,690
Total	**18,670**	**19,904**

14. Other short- and long-term liabilities (CZK million)

Trend of other short- and long-term liabilities in 2004 and 2005:

Balance at 31.12.2004	**< 1 year**	**> 1 year**	**Carrying amount at 31.12.2004**
Negative fair values of financial derivates	238	–	238
Payables to employees	562	–	562
Other tax liabilities	9	–	9
Social insurance	221	–	221
Other liabilities	109	–	109
Total	**1,138**	**–**	**1,138**

Balance at 31.12.2005	**< 1 year**	**> 1 year**	**Carrying amount at 31.12.2005**
Negative fair values of financial derivates	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**

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 31.12.2004	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(198)	(2,784)	(2,982)

Balance at 31.12.2005	**< 1 year**	**> 1 year**	**Total**
Deferred tax liabilities	(123)	(2,694)	(2,817)

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 derivates	Provisions	Others	Total
Balance at 1.1.2004	**(4,259)**	**(7)**	**–**	**(148)**	**(4,414)**
Debited (Credited) to the income statement	81	–	–	(19)	62
Charged to equity	–	(96)	–	92	(4)
Balance at 31.12.2004	**(4,178)**	**(103)**		**(75)**	**(4,356)**
Debited (Credited) to the income statement	(322)	–	–	94	(228)
Charged to equity	–	103	–	(26)	77
Balance at 31.12.2005	**(4,500)**	**–**	**–**	**(7)**	**(4,507)**

Deferred tax assets:

	Depreciation	Financial derivates	Provisions	Others	Total
Balance at 1.1.2004	**–**	**–**	**1,252**	**–**	**1,252**
Credited to the income statement	–	–	122	–	122
Balance at 31.12.2004	**–**	**–**	**1,374**	**–**	**1,374**
Credited to the income statement	–	–	213	–	213
Charged to equity	–	103	–	–	103
Balance at 31.12.2005	**–**	**103**	**1,587**	**–**	**1,690**

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

Changes in non-current and current provisions between 2004 and 2005:

	Provisions for warranty claims	Provisions for other obligations arising from sales	Provisions for employee expenses	Other provisions	Total
Balance at 1.1.2004	**4,245**	**864**	**337**	**31**	**5,477**
Utilised	(2,640)	(760)	(11)	–	(3,411)
Additions	3,189	922	74	257	4,442
Interest costs	37	1	–	–	38
Reversals	–	(36)	(44)	–	(80)
Balance at 1.1.2005	**4,831**	**991**	**356**	**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	–	(90)	(31)	–	(121)
Balance at 31.12.2005	**5,608**	**885**	**443**	**552**	**7,488**

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

Balance at 31.12.2004	< 1 year	> 1 year	Total
Provisions for warranty claims	1,738	3,093	4,831
Provisions for obligations arising from sales	991	–	991
Provisions for employee expenses	81	275	356
Other provisions	288	–	288
Total	**3,098**	**3,368**	**6,466**

Balance at 31.12.2005	< 1 year	> 1 year	Total
Provisions for warranty claims	2,064	3,544	5,608
Provisions for obligations arising from sales	885	–	885
Provisions for employee expenses	109	334	443
Other provisions	552	–	552
Total	**3,610**	**3,878**	**7,488**

Provisions for other obligations arising from sales include provision for the disposal of end-of-life-vehicles, provision for sale discounts, sale bonuses and similar allowances incurred 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 employee benefits and severance payments.

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

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

17. Cash flow statement

The cash and cash equivalents contained in the cash flow statement do not comprise only cash reported in the balance sheet, but include also other liquid means in form of short term loans to companies within the VW group due within three months of CZK 11,200 million as at 31 December 2005 (31 December 2004: CZK 8,600 million; 1 January 2004: CZK nil). 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 (mainly depreciation and amortisation) and income. This results in cash flows from operating activities after accounting for 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 and factoring liabilities also outflows and inflows from other financial loans.

18. Sales (CZK million)

Structure of sales in the years 2004 and 2005:

	2005	2004
Cars	157,476	139,355
Spare parts and accessories	10,717	10,342
VCI (supplies of components within Volkswagen Group)	6,833	3,776
Other sales	2,796	1,923
Total	**177,822**	**155,396**

19. Other operating income (CZK million)

Structure of other operating income in the years 2004 and 2005:

	2005	2004
Foreign exchange gains	1,640	1,572
Income from foreign currency trades	835	572
Gains on non-current assets disposal	28	11
Other	1,086	992
Total	**3,589**	**3,147**

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

20. Other operating expenses (CZK million)

Structure of other operating expenses in the years 2004 and 2005:

	2005	2004
Foreign exchange losses	1,117	1,162
Expenses from foreign currency trades	754	1,053
Receivables' impairment losses and write-offs	57	183
Other	405	566
Total	**2,333**	**2,964**

21. Financial result (CZK million)

Structure of financial result in the years 2004 and 2005:

	2005	2004
Interest income	390	227
Income from interest rate swaps	18	104
Other financial income	42	29
Financial income total	**450**	**360**
Interest expenses	(991)	(1,083)
Expenses from interest rate swaps	(19)	(100)
Other financial expenses	(4)	(42)
Financial expenses total	**(1,014)**	**(1,225)**
Net financial result	**(564)**	**(865)**

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

22. Income tax (CZK million)

	2005	2004
Current tax expense	**2,062**	**1,475**
of which: adjustment of tax base of prior period	(34)	(189)
Deferred tax expense/(income)	**15**	**(184)**
Income tax total	**2,077**	**1,291**

Statutory income tax rate in the Czech Republic for the 2005 assessment period was 26% (2004: 28%) and, because of the non-existence of any other surtax, the actual tax rate was identical with the statutory note. In fiscal year 2005, deferred taxes were measured at a tax rate of 24% (2004: 24.13%) 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):

	2005	2004
Profit before tax	9,440	4,424
Expected income tax expense	**2,454**	**1,239**
Proportion of taxation relating to:		
Permanent differences resulting from:		
Tax exempt income	(50)	(58)
Expenses not deductible for tax purposes	435	331
Other permanent differences	(176)	124
Tax alowances and investment tax credits	(510)	(242)
Prior-period current tax expense	(34)	(189)
Effect of tax rate changes	(15)	(6)
Other taxation effects	(27)	92
Effective income tax expense	**2,077**	**1,291**
Effective income tax rate	22%	29%

23. Investment incentives

Based on a resolution of the Ministry of Industry and Trade of the Czech Republic, the Company received the declaration of investment incentives to support the following projects:

- In accordance with Investment incentives law No. 72/2000 Coll. as amended, based on resolution dated 27 June 2005, the Company was granted an investment incentive for its project Roomster in Kvasiny in the form of investment tax credit and the transfer of technically equipped land at a reduced price. Total maximum amount of investment incentive of CZK 427.5 million represents 14.4% of the total eligible invested costs related to the investment intent.
- In accordance with the provisions of the Framework program for support of the technology parks and strategic services centres, based on resolution dated 3 June 2005, the Company was granted an investment incentive related to the planned investment in development and technology centre in Česana. The investment incentive is provided in the form of subsidy of entrepreneurial activities up to 15% of the total eligible costs and in the form of a subsidy of employee training and retraining costs up to an additional 35% or 60% (based on the type of training or retraining) of the total eligible costs related to the project. Maximum amount of subsidy of employee training and retraining costs is also capped at CZK 150,000 per one indeed newly created employment position.

In 2005, the Company utilised the investment incentives in the form of investment tax credit of CZK 60 million. The Company did not receive any other grant related to investment incentives in 2005. The Company assumes meeting of all criteria related to provision of the investment incentives.

Subsidies of entrepreneurial activities and of employee training and retraining costs will be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

24. 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. The Company has provided guarantees to third parties in the ordinary course of business in the amount of CZK 20 million (31 December 2004: CZK 73 million).

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.

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

Cash outflows for non-current tangible and intangible assets committed to at the balance sheet date that have not been realised as of that date are as follows:

	Payable until year 2006	**Payable 2007–2010**	**31.12.2005**	**31.12.2004**
Obligo – investment commitments	4,033	1,132	5,165	2,681
Leasing installments	55	75	130	15

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.

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

	2005	2004
Material costs – raw materials and other supplies, goods and services	**130,277**	**115,892**
Personal costs	**10,788**	**9,119**
Wages	8,276	6,844
Social insurance and other personal costs	2,512	2,275
Number of employees	**25,789**	**24,060**

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 Company participated in the following transactions with related parties:

Sales to related parties (CZK million)

	2005	2004
Parent company		
VOLKSWAGEN AG	2,983	2,279
Subsidiaries		
Skoda Auto India Private Ltd.	2,846	2,265
ŠkodaAuto Deutschland GmbH	33,322	29,654
ŠKODA AUTO Slovensko, s.r.o.	5,891	7,163
Skoda Auto Polska S.A.	7,755	10,620
Companies controlled by parent company		
Volkswagen Sachsen GmbH	259	397
VOLKSWAGEN Group United Kingdom Ltd.	12,835	12,202
Groupe VOLKSWAGEN France s.a.	6,169	4,656
VOLKSWAGEN SLOVAKIA, a.s.	1,702	1,279
Volkswagen Navarra, S.A.	1,559	955
Svenska VOLKSWAGEN AB	3,708	2,635
Import VOLKSWAGEN Group s.r.o.	618	617
VW Group Rus OOO	2,071	650
Volkswagen do Brasil Ltda.	1,798	58
AUDI HUNGARIA MOTOR Kft.	1	12
AUDI AG	4	59
SEAT, S.A.	527	504
AUTOGERMA S.p.A.	6,219	6,123
Volkswagen-Audi España S.A.	7,998	6,299
Gearbox del Prat, S.A.	11	–
Volkswagen Bruxelles, S.A.	86	–
Other related parties		
ROLLS-ROYCE& BENTLEY MOTOR CARS Limited	8	5
Other related parties	1	1
Total	**98,371**	**88,433**

Sales to Skoda Auto India Private Ltd. include revenues from royalties in the amount of CZK 61 million (2004: CZK nil) and revenues based on the technology support agreement for the year 2005 in the amount of CZK 151 million (2004: CZK 280 million).

Besides sales to related parties stated in the table above the Company also realized in 2005 revenue from licence fees of CZK 597 million (2004: CZK nil) 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)

	2005	2004
Parent company		
VOLKSWAGEN AG	22,806	20,400
Companies controlled by parent company		
Volkswagen Sachsen GmbH	2,641	2,755
Volkswagen Versicherungsvermitlungs GmbH	153	121
IAV Ingenieurgesellschaft GmbH	31	–
VOLKSWAGEN Group United Kingdom Ltd.	61	–
Groupe VOLKSWAGEN France s.a.	358	510
VOLKSWAGEN SLOVAKIA, a.s.	22	23
AUTO VISION, GmbH	4	–
AUDI AG	284	191
AUDI HUNGARIA MOTOR Kft.	10,499	7,482
Import VOLKSWAGEN Group s.r.o.	138	9
VW Group Rus OOO	–	1
ŠkoFIN s.r.o.	459	117
Volkswagen Navarra, S.A.	34	39
Svenska VOLKSWAGEN AB	28	3
SEAT, S.A.	680	647
AUTOGERMA S.p.A.	223	69
Gearbox del Prat, S.A.	10	28
Volkswagen-Audi España S.A.	8	–
Volkswagen Poznan Sp. Z o.o.	233	184
Europcar Fleet Services a.s.	3	16
Volkswagen do Brasil Ltda.	5	5
VOTEX, GmbH	28	30
Volkswagen Bordnetze GmbH	83	39
Autostadt GmbH	21	22
Volkswagen de Mèxico S.A., de C.V.	57	48
Volkswagen Immobilien Service GmbH	–	8
Volkswagen Transport GmbH	1,418	1,192
Volkswagen of South Africa (pty.) Ltd.	1	1
VOLKSWAGEN OF AMERICA, INC	18	34
Volkswagen Group Singapore Pte. Ltd.	–	3
Volkswagen Group Japan KK	2	1
Volkswagen Bruxelles S.A.	4	7
Volkswagen China Investment Comp. Ltd.	4	–
ŠKO-ENERGO, s.r.o.	1,551	1,549
gedas ČR, s.r.o.	192	127
e4t electronics for transportation s.r.o.	39	26
ŠkoLease s.r.o.	154	102
Coordination Center VW NV/SA Belgium	–	296
VW Finance Belgium SA	238	–
Other related parties		
Other related parties	14	16
Total	**42,504**	**36,097**

Receivables from related parties (CZK million)

	31.12.2005	31.12.2004
Parent company		
VOLKSWAGEN AG	357	134
Subsidiaries		
Skoda Auto India Private Ltd.	614	409
Skoda Auto Polska S.A.	54	48
ŠKODA AUTO Slovensko, s.r.o.	36	4
ŠkodaAuto Deutschland GmbH	–	288
Companies controlled by parent company		
Volkswagen Sachsen GmbH	4	19
VOLKSWAGEN Group United Kingdom Ltd.	58	–
Groupe VOLKSWAGEN France s.a.	7	89
VOLKSWAGEN SLOVAKIA, a.s.	114	81
Volkswagen Navarra, S.A.	79	70
Svenska VOLKSWAGEN AB	41	34
Volkswagen do Brasil Ltda.	184	49
Import VOLKSWAGEN Group s.r.o.	38	55
VW Group Rus OOO	421	125
Volkswagen-Audi España S.A.	68	86
ŠkoFIN s.r.o.	248	335
AUDI AG	3	9
AUDI HUNGARIA MOTOR Kft.	–	1
SEAT, S.A.	52	70
AUTOGERMA S.p.A.	13	75
Gearbox del Prat, S.A.	3	1
Other related parties		
Other related parties	238	368
Total	**2,632**	**2,350**

In addition to receivables stated in the table above, the Company provided as at 31 December 2005 loans to Volkswagen AG in the amount of CZK 8,900 million (31 December 2004: CZK 7,600 million), ŠkoFIN in the amount of CZK 2,000 million (31 December 2004: CZK 1,000 million) and Import Volkswagen in the amount of CZK 300 million (31 December 2004: CZK nil). Interest from these loans outstanding as at 31 December 2005 was CZK 8 million (31 December 2004: CZK 8 million).

Liabilities to related parties (CZK million)

	31.12.2005	31.12.2004
Parent company		
VOLKSWAGEN AG	994	2,009
Subsidiaries		
Skoda Auto India Private Ltd.	5	7
ŠkodaAuto Deutschland GmbH	699	286
Skoda Auto Polska S.A.	62	–
Companies controlled by parent company		
Volkswagen Sachsen GmbH	146	286
Volkswagen Poznan Sp. z o.o.	13	17
VOTEX GmbH	3	–
VOLKSWAGEN Group United Kingdom Ltd.	167	241
Volkswagen Bruxelles S. A.	–	1
Groupe VOLKSWAGEN France s.a.	109	261
Volkswagen de Mèxico S.A., de C.V.	15	4
VOLKSWAGEN Transport GmbH	250	204
VOLKSWAGEN SLOVAKIA a.s.	2	4
Volkswagen do Brasil Ltda.	1	1
Volkswagen Navarra, S.A.	2	4
VW Group Rus OOO	–	53
Svenska VOLKSWAGEN AB	4	3
ŠKO-FIN, s.r.o.	66	2
Import VOLKSWAGEN Group s.r.o.	2	1
Volkswagen-Audi España S.A.	2	14
Gearbox del Prat, S.A.	1	1
AUDI AG	31	67
AUDI HUNGARIA MOTOR Kft.	822	852
AUTOGERMA S.p.A.	81	238
SEAT, S.A.	6	12
gedas ČR, s.r.o.	117	72
Coordination Center VW NV/SA Belgium	–	2,746
VW Finance Belgium SA	899	–
Other related parties		
Other related parties	52	344
Total	**4,551**	**7,729**

Information on key management personnel remuneration (CZK million):

	2005	2004
Salaries and other short-term employee benefits	339	289
Post-employment benefits	–	–
Other long-term employee benefits	–	–
Termination benefits	–	–
Share-based payments	–	–
Total	**339**	**289**

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.

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 2005, the key management personnel included 85 persons (2004: 81).

28. Other information (CZK million)

The compensation paid to auditors for the accounting period was CZK 26 million (2004: CZK 23 million) and covered the following services.

	2005	2004
Audit and other assurance services	17	14
Tax and related services	3	6
Other advisory services	6	3
Total	**26**	**23**

29. Significant events after the balance sheet date

After the balance sheet date, there were no events that could have a significant impact on the financial statements for the year ended 31 December 2005.

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 Europcar; 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).

31. 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:
- Technical development;
- Production and logistic;
- Quality;
- 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.

Mladá Boleslav, 24 January 2006

Detlef Wittig
Chairman of the
of the Board of Directors

Holger Kintscher
Member of the
Board of Directors
Commercial Affairs

Jana Šrámová
Director of Accounting

Jan Dušek
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 2005 – 31 December 2005

The report on relations between VOLKSWAGEN AG, having its registered office in Wolfsburg, Federal Republic of Germany, (hereinafter referred to as the “Controlling Entity” or “Volkswagen”) and ŠKODA AUTO a.s., having its registered offices in Mladá Boleslav, Tř. Václava Klementa 869, Post code: 29360, ID No.: 00177041 (hereinafter referred to as the “Controlled Entity” or “the Company” or “Škoda Auto”), and between Škoda Auto and other entities controlled by Volkswagen in the accounting period 1 January 2005 to 31 December 2005 (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) spare parts
Škoda Auto did not conclude any spare 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.

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 Motor Polska Sp. Z o.o.
Volkswagen Sachsen GmbH
e4t electronics for transportation s.r.o.
gedas deutschland GmbH
Volkswagen-Audi Espana S.A.

b) indirect material and services

Škoda Auto entered into the following indirect material and service purchase contracts (indirect material and services purchase, research and development cooperation, IT services, licences, software and hardware supplies, customer services consultancy, logistic systems support, logistic systems consultancy, standardisation cooperation, rent of properties, rent of testing areas) with the following companies:

VOLKSWAGEN Transport GmbH
VOLKSWAGEN AG
gedas ČR, s.r.o.
Volkswagen Sachsen GmbH
AUDI AG
Volkswagen Immobilien Service GmbH
Volkswagen of South Africa (Pty.) Ltd.
VOLKSWAGEN OF AMERICA, INC.
Volkswagen Coaching GmbH
gedas deutschland GmbH
Autostadt GmbH
Groupe VOLKSWAGEN France s.a.
e4t electronics for transportation s.r.o.
ŠkodaAuto Deutschland GmbH
Volkswagen Navarra, S.A.
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
Volkswagen-Audi España S.A.
Automobilmanufaktur Dresden GmbH
SEAT Sport S.A.
VOLKSWAGEN SARAJEVO, d.o.o
IAV Ingenieursgesellschaft 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 Argentina S.A.

c) spare parts
As part of spare parts purchasing, Škoda Auto entered into contracts with the following partners:
AUDI HUNGARIA MOTOR Kft.
VOLKSWAGEN AG
SEAT S.A.
SITECH Sp. Z o.o.
Volkswagen de Mèxico S.A., de C.V.
Volkswagen do Brasil Ltda.
AUDI AG
VOLKSWAGEN SLOVAKIA, a.s.
Gearbox del Prat, S.A.
Volkswagen Bordnetze GmbH
VOLKSWAGEN SARAJEVO, d.o.o.
Cosworth Technology Ltd.
VOTEX, GmbH

d) investment
Škoda Auto entered into investment purchase contracts with the following companies:
gedas ČR, s.r.o.
VOLKSWAGEN AG
Import VOLKSWAGEN Group s.r.o.
e4t electronics for transportation s.r.o.
Volkswagen Sachsen GmbH

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.
VOLKSWAGEN AG
Import VOLKSWAGEN Group s.r.o.
ŠkoFIN s.r.o.
Europcar Fleet Services a.s.
INIS International Insurance Service s.r.o.
Autostadt GmbH
ŠkodaAuto Deutschland GmbH
AUTOGERMA S.p.A.
Volkswagen China Investment Comp. Ltd.
Skoda Auto Polska S.A.
SCANIA AB
VW Finance Belgium SA
Group VOLKSWAGEN France s.a.
VOLKSWAGEN Group United Kingdom Ltd.

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.

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, except as follows:

Škoda Auto paid a regular dividend of CZK 1,537,500,000 to Volkswagen as sole shareholder on 1 July 2005 based on the Decision of the sole shareholder Volkswagen from 14 February 2005 and an extraordinary dividend of CZK 2,916,000,000 on 20 December 2005 based on the Resolution of the sole shareholder Volkswagen from 13 December 2005.

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, 8, 13 and 27 of the notes to separate financial statements.

The Board of Directors of the Controlled Entity declares that Škoda Auto did not suffer from any damage or detriment as a result of the conclusion of the above mentioned contracts, the other aforesaid legal acts, other measures, performance provided or accepted counter-performance.

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 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 2005 Annual Report, bonuses relating to the accounting period and the meeting of targets set for 2005 had not been approved; they will be paid in 2006. For this reason, the amounts given below contain bonus amounts relating to 2004 performance that have actually been paid. During 2005, 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	**2004**	**2005**
Members of the Board of Directors	17,665,753	13,649,159
Members of the Supervisory Board	1,058,903	1,223,196

The difference in the Board of Directors and Supervisory board member incomes between 2005 and 2004 is due to board staffing changes and temporary vacancies in certain positions (see pages 12–14).

Glossary of Terms

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 whose finances and operations Škoda Auto is entitled to direct, directly or indirectly. These subsidiaries are: ŠkodaAuto Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Skoda Auto Polska S.A., and Skoda Auto India Private Ltd.
Česana Development Centre	A research and development centre owned by ŠKODA AUTO a.s. Mladá Boleslav and which is part of that company’s organisation structure. It is the third largest development centre in the Volkswagen Group.
CKD vehicle assemblies	(Completely Knocked-Down) car kits that undergo final assembly in purpose-built facilities located in foreign countries.
e-learning	A training method that utilises electronic learning programs on personal computers.
External persons /temporary employees	Persons employed by a labour agency that are temporarily assigned to work for a different employer.
For Motion	A Volkswagen Group programme that aims to improve profits by focusing in particular on cost-cutting.
G.C.C.	Gulf Cooperation Council – a managing body that issues technical standards for automobile imports to the following countries: Saudi Arabia, United Arab Emirates, Kuwait, Qatar, Bahrain, Oman, and Yemen.
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 automotive expo held annually in Frankfurt-am-Main, Germany.
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.
MPI	Multi Point Injection, a fuel-injection system.
Net liquidity	Gross liquidity less financial liabilities, including factoring liabilities.
Profit-to-sales ratio	Profit expressed as a percentage of total sales.
Roomster	A new Škoda-brand model with an innovative approach to vehicle interior design. The prefix "Room-" symbolizes the roomy interior, while the ending "-ster" expresses the dynamism and emotions evoked by Roadster-type cars. Series production of the Roomster will begin in the spring of 2006.
SUV	Sport Utility Vehicle.
YETI	A design study of a Škoda-brand vehicle in the SUV class, bringing maximum functionality, design, and number of intelligent features typical of Škoda cars. While neither of the two current versions of the YETI attempts to be a typically aggressive all-terrain vehicle, they are faithful to the SUV design philosophy.
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 14 February 2006

Detlef Wittig
Chairman of the Board of Directors

Holger Kintscher
Member of the Board of Directors, Commercial Affairs

Jana Šrámová
Head of Accounting

Jan Dušek
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 (CZK millions)

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

Production, Sales and Technical Data

		Škoda Auto Group		ŠKODA AUTO a.s.	
		2004	2005	2004	2005
Deliveries to customers	**vehicles**	**451,675**	**492,111**	**451,675**	**492,111**
Sales	**vehicles**	**444,458**	**498,467**	**441,820**	**493,119**
Production	**vehicles**	**443,868**	**494,127**	**444,121**	**494,637**
Employees	persons	25,225	26,742	24,561	26,014
of which: External persons	persons	3,664	3,460	3,664	3,460

Profit and Loss Account

		Škoda Auto Group		ŠKODA AUTO a.s.	
		2004	2005	2004	2005
Sale	**CZK millions**	**163,665**	**187,382**	**155,396**	**177,822**
of which: Domestic	%	14.7	13.3	15.5	14.0
Export	%	85.3	86.7	84.5	86.0
Cost of products, goods and services sold	CZK millions	144,368	163,738	140,996	159,187
	% of sales	88.2	87.4	90.7	89.5
Gross profit	**CZK millions**	**19,297**	**23,644**	**14,400**	**18,635**
	% of sales	11.8	12.6	9.3	10.5
Sales expenses	CZK millions	10,278	10,611	6,137	6,558
Administrative expenses	CZK millions	3,513	3,676	3,157	3,329
Balance of other operating revenues/costs	CZK millions	389	1,503	183	1,256
Operating profit	**CZK millions**	**5,895**	**10,860**	**5,289**	**10,004**
	% of sales	3.6	5.8	3.4	5.6
Financial result	CZK millions	(1,052)	(787)	(865)	(564)
Profit before income tax	**CZK millions**	**4,843**	**10,073**	**4,424**	**9,440**
Profit before income tax-to-sales ratio	% of sales	3.0	5.4	2.8	5.3
Tax on profit or loss	CZK millions	1,474	2,180	1,291	2,077
Profit for the year*	**CZK millions**	**3,369**	**7,893**	**3,133**	**7,363**
Profit for the year-to-sales ratio	% of sales	2.1	4.2	2.0	4.1

Balance Sheet/Financing

		Škoda Auto Group		ŠKODA AUTO a.s.	
		2004	2005	2004	2005
Non-current assets	**CZK millions**	**55,858**	**55,424**	**55,792**	**55,023**
Current assets	**CZK millions**	**40,343**	**34,331**	**32,414**	**28,956**
Lendings	CZK millions	8,600	11,200	8,600	11,200
Equity	**CZK millions**	**43,923**	**46,757**	**44,147**	**46,483**
Non-current and current liabilities	**CZK millions**	**52,278**	**42,998**	**44,059**	**37,496**
Nominal value of bonds	CZK millions	10,000	5,000	10,000	5,000
Assets	**CZK millions**	**96,201**	**89,755**	**88,206**	**83,979**
Net liquidity	**CZK millions**	**(2,631)**	**4,911**	**414**	**6,070**
Gross cash flow	**CZK millions**	**17,052**	**20,365**	**16,623**	**19,850**
Cash flow from operating activities	**CZK millions**	**26,794**	**23,550**	**23,164**	**21,421**
Cash flow from investing activities	**CZK millions**	**9,752**	**11,566**	**9,957**	**11,299**
Investment ratio	%	4.6	4.7	4.8	4.8
Equity ration	%	45.7	52.1	50.0	55.4
Equity-to-fixed assets ratio	%	78.6	84.4	79.1	84.5

* Consolidated figures are net of minority shares.

Škoda Auto Investments

ŠKODA AUTO a.s.

ŠkodaAuto Deutschland GmbH, Weiterstadt, Germany, stake held by Škoda Auto: 100%. Objects of business: purchase (including import) and sale of vehicles, spare parts, and accessories.

ŠKODA AUTO Slovensko, s.r.o., Bratislava, Slovakia, stake held by Škoda Auto: 100%. Objects of business: purchase (including import) and sale of vehicles, spare parts, and accessories.

AutoVize s.r.o.,* Mladá Boleslav, Czech Republic, stake held by Škoda Auto: 100%. Objects of business: intermediary activity, property letting and facility management.

ŠKODA AUTO BH d.o.o., Sarajevo-Vogošča, Bosnia-Herzegovina, stake held by Škoda Auto: 100%. Objects of business: purchase (including import) and sale of vehicles, spare parts, and accessories.

ZAO Evroavto, Sergiev Posad, Russian Federation, stake held by Škoda Auto: 75.10%. The company is not engaged in any business activities.

Skoda Auto Polska S.A., Poznan, Poland, stake held by Škoda Auto: 51%. Objects of business: purchase (including import) and sale of vehicles, spare parts, and accessories.

Skoda Auto India Private Ltd., Aurangabad, India, stake held by Škoda Auto: 99.99%. Objects of business: purchase (including import), production, assembly, sale, and export of vehicles, components, spare parts, accessories, and other goods.

e4t electronics for transportation s.r.o., Prague, Czech Republic, stake held by Škoda Auto: 49%. Objects of business: research and development in the field of natural, technical, and social sciences, training and consulting services.

ŠKO-ENERGO, s.r.o., Mladá Boleslav, Czech Republic, stake held by Škoda Auto: 34%. Objects of business: 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.

ŠKO-ENERGO FIN, s.r.o., Mladá Boleslav, Czech Republic, stake held by Škoda Auto: 10%. Objects of business: letting of property and non-residential premises, industrial and office equipment.

* On 15 June 2005, ŠKODA IMMO s.r.o. was renamed to AutoVize s.r.o.

Anticipated Events of 2006

february 2006

Geneva Motor Show – world premiere of the Roomster
Annual Škoda Auto press conference and publishing of 2005 Annual Report

march 2006

The beginning of series production of the Roomster model

april 2006

Publishing of the Interim Report as of 31 March 2006 of the Škoda Auto consolidation group according to IFRS
Publication of a report on social responsibility in the area of sustainable development

may 2006

Škoda Auto becomes an official sponsor of the World Ice Hockey Championships in Latvia

june 2006

Autosalon Autotec Brno
The Czech market launch of the Roomster model
Škoda Auto becomes General Partner of the 46th International Festival of Films for Children and Youth in Zlín, Czech Republic

july 2006

Škoda Auto – a principal sponsor of the Tour de France (Member of the Tour de France Club)
Publishing of the 2006 Half-year Report of the Škoda Auto consolidation group according to IFRS
The production of the 10 millionth car in Company history

september 2006

Presentation at the Auto Salon Paris
The Škoda Auto University will begin to offer Master's Degree programmes

october 2006

Publishing of the Interim Report as of 30 September 2006 of the Škoda Auto consolidation group according to IFRS

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