

100
YEARS
AUTOMOTIVE HISTORY

SIMPLY CLEVER



ŠkodaAuto
Annual Report 2004

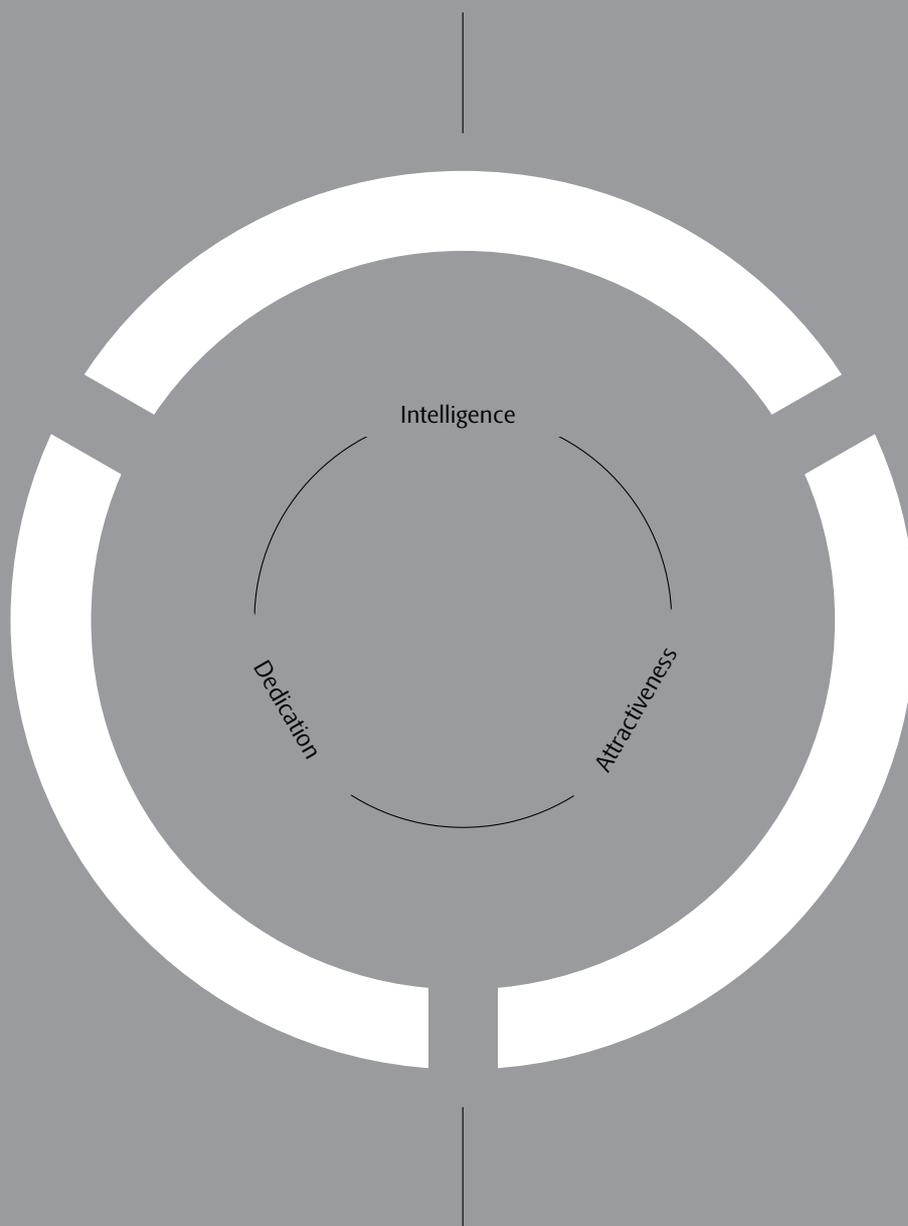
Very few car manufacturers can boast an uninterrupted tradition stretching back for more than a hundred years. Škoda Auto is one of them. The path to the company's current prosperity began back in 1895, when a mechanic, Václav Laurin, and a bookseller, Václav Klement, began manufacturing Slavia-brand bicycles. Four years later, their company Laurin & Klement began making motorcycles. The first car left the factory gates in 1905, and it was not long before the firm's car manufacturing activities earned it a stable position in the emerging international car market. The road subsequently taken by the car-maker to its present-day prosperity has been winding and difficult owing to various political and macroeconomic circumstances. As a result, we feel all the prouder to be the bearers of a legacy of Czech intellectual and manual endeavour that is a significant chapter of world automotive history.

Škoda Auto has an exceptional position in the Czech economy and is the Czech Republic's largest exporter. Through its sales network, the Company also holds a leading position in the domestic market, where roughly half of all new cars sold are Škodas.

The dynamic development of Škoda Auto offers domestic suppliers an opportunity for further growth and potential new business for Czech industry. In this way Škoda Auto indirectly creates thousands of jobs in the Czech Republic and abroad. However, this opportunity depends on the fulfilment of the key criteria of quality, price and reliability.

Škoda Auto is aware of the responsibility it shares for social issues in the Czech Republic and it will continue to contribute to the development of society through active support for social, educational, and cultural projects.

The New Brand Guidelines



Škoda - Simply clever.

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Intelligence

Škoda cars are set apart by their user-orientated technology, functionality you can feel, variable use of space and technically perfected and smart features.

Škoda, a spacious car with a remarkably flexible interior.

An extra incentive is the excellent value for money.





Attractiveness

An attractive car is the product of top-class design, performance, and handling. In this respect Škoda Auto has so much to offer, no small thanks to its timeless yet progressive, attractive, and energetic design. The singular attention to detail and original components, coupled with smooth operability and dynamism, guarantee first-rate driving pleasure.





Dedication

Dedication was the force driving Laurin & Klement forward as they built their first vehicles and founded the Škoda brand. It is with this same dedication that Škoda Auto now pursues one distinct objective: to astound its customers.

This is achieved through the individual care or 'human touch' the customer experiences and through the exceptional quality of Škoda Auto's cars.

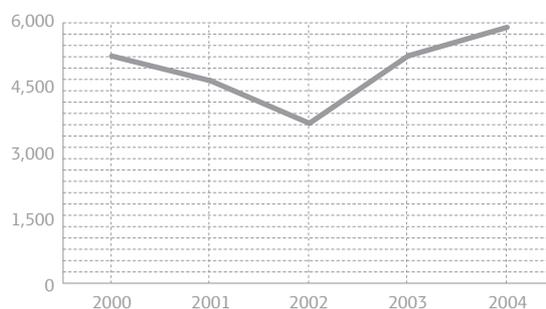




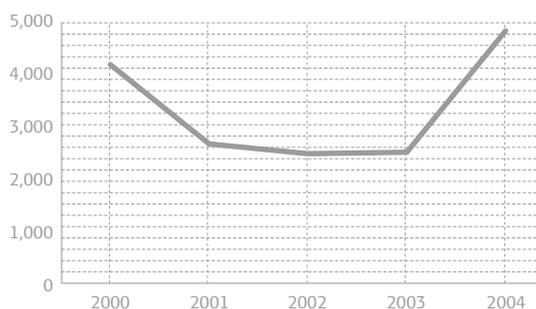
Selected Figures

		2000	2001	2002	2003	2004
Profit and Loss Account						
Deliveries to customers	vehicles	435,403	460,252	445,525	449,758	451,675
Sales	vehicles	448,394	460,670	440,572	438,843	441,820
Production	vehicles	450,910	460,886	442,469	437,554	444,121
Employees (as at 31 December)	persons	25,833	24,129	23,470	22,798	24,561
of which: Temporary	persons	3,245	2,735	2,179	2,308	3,664
Total revenues	CZK millions	136,283	153,271	145,694	145,197	153,550
of which: Domestic	%	18	18	18	17	15
Export	%	82	82	82	83	85
Operating profit	CZK millions	5,204	4,643	3,677	5,209	5,856
Operating profit-to-revenues ratio	%	3.8	3.0	2.5	3.6	3.9
Profit before taxation	CZK millions	4,175	2,674	2,489	2,517	4,815
Profit before taxation-to-revenues ratio	%	3.1	1.7	1.7	1.7	3.2
Profit after taxation	CZK millions	3,336	2,129	1,825	1,478	3,497
Balance Sheet/Financing						
Fixed assets	CZK millions	39,175	45,008	44,873	44,074	41,143
Current and other assets	CZK millions	27,486	21,603	21,945	22,077	30,694
Equity	CZK millions	26,032	28,157	29,817	31,758	32,844
Liabilities, including other liabilities	CZK millions	40,629	38,454	37,001	34,393	38,993
Gross cash flow	CZK millions	10,756	11,693	12,854	13,002	15,176
Investments	CZK millions	13,873	16,235	11,586	10,248	8,430
Investment ratio	%	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	66.5	62.6	66.4	72.1	79.8

Operating Profit (CZK million)



Profit Before Taxation (CZK million)



Milestones in 2004

January

- Presentation of the new Octavia to the Car of the Year (COTY) judges
- Release of the first photograph of the new Škoda Octavia

February

- As part of the Company's support for social and charity projects, the Health Clown embarks on a year-long journey in a new Škoda Fabia to visit children's hospitals throughout the Czech Republic
- The one millionth Škoda Octavia is manufactured
- A new Škoda car assembly hall opens in Aurangabad, Maharashtra State, India
- The Annual Škoda Auto Press Conference is held and the Company's 2003 Annual Report is published
- The production of new Škoda Octavia begins in the Vrchlabí plant

March

- The new Škoda Octavia is unveiled at the Geneva Motor Show
- The Škoda Design Centre in Mladá Boleslav is awarded the international prize 'DesignBEST 2004'
- The new Škoda Octavia is unveiled at an international presentation for journalists held in Athens

April

- The one millionth Škoda Fabia is manufactured in the Mladá Boleslav plant

- For the eleventh time in a row, Škoda Auto is the lead sponsor of the National Ice Hockey Championship in the Czech Republic
- The new Škoda Octavia is named 'Car of the Year' in Serbia and Montenegro
- In a highly respected study, the J. D. Power Survey for the UK market, Škoda cars place second in a competitive field made up of all the global automotive brands
- The fortnightly Škoda Mobil is named the best corporate periodical in the Czech Republic in the Golden Semi-Colon (Zlatý středník) competition for the second year running

May

- The T-Mobile and Škoda Auto Automotive Golf Tour begins
- The market launch of the new Škoda Octavia

June

- Škoda Auto is the general partner of the 44th International Festival of Films for Children and Youth in Zlín, the third time it has been the lead sponsor for this event
- The vintage Škoda 1100 OHC places an excellent third in its class and 64th overall in the Liège-Rome-Liège Rally 2004

July

- Škoda Auto is the general partner of the Tour de France for the first time in its history
- The Škoda Auto 2004 Semi-annual Report is published



August

- The 28th Olympic Games open in Athens with Škoda Auto as the general partner of the Czech Olympic Team
- Škoda Auto becomes the general partner of the Ice Hockey World Cup
- Škoda Auto, in co-operation with Tele Atlas and CEDA, launches a new version of the digital navigation map of the Czech Republic – the first such map to communicate in Czech
- The assembly line at the Mladá Boleslav plant terminates production of the Octavia and begins producing the new Octavia

September

- Škoda Auto becomes the official automobile of the Czech Paralympic Team at the 12th Summer Paralympic Games in Athens
- The Škoda Auto Sustainability Report is published
- The 23rd Annual Economy Run Rally is held
- Another season of the Extraliga, the Czech Republic's top-flight ice hockey league begins, sponsored once again by Škoda Auto
- Under the patronage of Škoda Auto, the second annual European Festival of Film Smiles is held in Mladá Boleslav
- Decision to build a university campus, including an Innovation Centre for Auto Vision project, at the Na Karmeli site in Mladá Boleslav
- The new Škoda Octavia Combi and Octavia Combi 4x4 are unveiled at the Paris Motor Show

October

- Journalists visit the Škoda Auto assembly plant in Aurangabad, India
- Škoda Auto presents character profiles of eight key Company designers at the 'Designblok – Design Days in Prague' exhibition
- The Prague German-language Theatre Festival begins, with Škoda Auto as the general partner

November

- The new Škoda Octavia Combi and Octavia Combi 4x4 are presented to journalists in Český Krumlov
- The Škoda Octavia comes first in the medium-sized sedan category in the twelfth annual Most Beautiful Car of the Year competition, held in Milan
- The new Škoda Octavia takes the Golden Steering Wheel prize in the compact and mid-sized car category awarded by Germany's Bild am Sonntag magazine

December

- The new Škoda Octavia Combi is launched

Letter from the Chairman

Ladies and Gentlemen,

The past year revealed that our Company was on a solid footing, capable of growth and strong enough to occupy a prominent position in the demanding environment of automotive markets and the automotive industry.

Low economic growth, tax and social reforms, high oil prices – those are just some of the factors that had a negative impact on the economies of EU Member States – markets accounting for 84% of Škoda Auto's sales. As a result of these negative factors, customers were reluctant to buy and most markets in Western and Central Europe either shrank or, at best, stagnated.

Despite these factors, Škoda Auto delivered 451,675 vehicles to customers around the world in 2004, a sales increase of 0.4% compared to the previous year. Total revenues for the same period were up by 5.8% to CZK 153.6 billion. The Company posted a profit before taxation of CZK 4.8 billion, which is 91.3% higher than the result reported in the previous period.

We were able to achieve such performance only because a high degree of customer satisfaction with our cars became our employees' number-one priority. At the same time, we are living up to the legacy of our founders – Václav Laurin and Václav Klement – and their maxim 'Only our best is good enough for our customers'.

Thanks to our customer focus, we increased the competitiveness of our Company and our products in the demanding market environment that is today's automotive industry. This process begins right at the embryonic stages of product development, continues throughout suppliers and the entire Company, where it is manifested primarily in the quality of our products, and ends with the top-quality services of our dealers. All this is achieved while respecting the highest possible value: customer satisfaction.

From the Company's perspective, the most important events of 2004 were the presentation of the new Škoda Octavia at the International Motor Show in Geneva and the subsequent introduction of the new Škoda Octavia



Combi in Paris. As the public and media response confirmed, our efforts were successful and were crowned with positive reactions from our customers following the market launch of the new Škoda Octavia.

These successes are underlined by the many awards we won last year – achievements that we are committed to matching as we advance. The most significant were the Auto Trophy 2004, Golden Steering Wheel, White Rhodos – Most Effective Image of 2004 and Škoda Octavia – the most beautiful car of 2004. Here I would like to mention two major landmarks related to our car manufacturing – the completion of the millionth Octavia on 17 February 2004 and the millionth Fabia, which was presented to a customer in an official ceremony held at the production line on 8 April 2004.

For 2005 and beyond, we have set ambitious yet realistic goals. The core activities intended to reinforce our competitiveness even further are the ongoing development of the product programme, including its expansion to include a fourth model line, an increase in

the efficiency of our structures and processes leading to cost optimisation, and the continuous strengthening of our position in the European market as well as the penetration of new markets.

In conclusion, allow me, on behalf of the entire Board of Directors of Škoda Auto, to express our gratitude, especially to our customers for their loyalty to the Škoda brand.

Special thanks go out to our employees and partners, whose competence and dedication have made a major contribution to the fulfilment of the goals we have set ourselves to date.

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

Board of Directors and Supervisory Board

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. Ing. Winfried Vahland (*1957)
Vice Chairman since 1 February 2003
Member since 1 August 2002

Graduated in Business Administration/Mechanical Engineering from TD Darmstadt and was awarded an MBA by the GM Institute, Flint, Michigan (USA). In 1985–87 he worked on project analyses at Adam Opel AG, in 1987–88 he served as Head of the Manufacturing Strategy Project at GM Europe, and in 1989–90 he was Head of Investment Management at Adam Opel AG. In 1990, he was appointed Head of the Controlling and Profit Analysis Department of AUDI AG. This was followed by the positions of Director of Group Controlling at Volkswagen Group (1993), Executive Director Overseas Area/Sales Organisation (1995), Director of Finance at Volkswagen do Brasil Ltda. (1997), and Vice President Finance and Corporate Strategy (1998). He became the Member of the Board of Directors of ŠKODA AUTO a.s. responsible for Finances, Purchasing, Legal Affairs and Organisation on 1 August 2002, and was appointed Vice Chairman of that body effective as of 1 February 2003. He is a member of the Supervisory Boards of Škoda Auto Slovensko, Škoda Auto Polska and Škoda Auto Deutschland.

Dipl. Ing. Karl-Günter Büsching (*1941)
Member since 1 January 1998 till 31 December 2004

Graduated from the Wolfenbüttel University of Applied Sciences (1967). Since his graduation, he has been with VOLKSWAGEN AG, where he has worked as a specialist in final vehicle assembly (1969) and Head of the Vehicle Assembly Unit at Volkswagen Wolfsburg (1974).



From left: Karl-Günter Büsching, Helmuth Schuster, Fred Kappler, Detlef Wittig, Winfried Vahland

In 1978–80 he worked in the management of the Volkswagen factory in West Moreland, USA, and later served in management positions in assembly at the Wolfsburg factory (1981). In 1989–97 he was a member of management of the Volkswagen Emden factory. Since 1998, he has been the Member of the Board of Directors of ŠKODA AUTO a.s. responsible for Production and Logistics. In recognition of his academic activities, he has been appointed an honourable professor of production and operational technology at the Liberec University of Technology.

Dr. Helmuth Schuster (*1954)
Member since 1 January 2001

After graduating in Economics at the University of Hamburg (1979), he worked as a research assistant and earned the academic title Dr. rer. pol. at the Faculty of Economics of the Aachen University of Technology (1980–85). Starting in 1986 he worked for Hoechst AG in Frankfurt am Main. He joined VOLKSWAGEN AG in 1991. In 1993 he was Executive Director International Human Resources for the Group and from 1994 to 2000 he was

Executive Director of Central Human Resources for the Volkswagen Group. On the Board of Directors of ŠKODA AUTO a.s., which he joined in 2001, he is in charge of Personnel. He is Chairman of the Board of Directors of Volkswagen Pension Trust e.V., Chairman of the Board of Trustees of the Institute for Industrial and Financial Management, Prague, a professor at Pfeiffer University, Charlotte NC, USA, and a member of the Supervisory Boards of Volkswagen Slovakia and Volkswagen Motor Polska.

Dipl.-Ökonom Fred Kappler (*1958)
Member since 1 January 2004

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. responsible for Sales and Marketing.

Supervisory Board

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

Chairman of the Supervisory Board since 1 October 2004

Chairman of the Board of Directors till 30 September 2004

President of the Automotive Industry Association
of the Czech Republic

Vice-President of the Confederation of Industry
and Transportation of the Czech Republic

President of the Czech Ice Hockey Association

Dr. jur. Jens Neumann (*1945)

Vice Chairman, Member of the Board of Directors
of VOLKSWAGEN AG, Wolfsburg

16 April 1993 – 31 December 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 ^{2/}

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

Member of the Board of Directors, VOLKSWAGEN AG,
Wolfsburg

1 January 2004 ^{2/}

Dr. rer. pol. h. c. Peter Hartz (*1941)

Member of the Board of Directors, VOLKSWAGEN AG,
Wolfsburg

19 December 1994 ^{2/}

Ing. Václav Petříček (*1944)

Deputy Minister of Industry and Trade of the
Czech Republic, Prague

1 February 1996 ^{2/}

Prof. Dr.-Ing. h. c. mult. Folker Weißgerber (*1941)

Member of the Board of Directors, VOLKSWAGEN AG,
Wolfsburg

1 January 2002 ^{2/}

Ing. Jan Miller (*1948)

Secretary of the Labour Union branch, OS KOVO
ŠKODA AUTO a.s., Mladá Boleslav

16 April 1993 ^{2/}

Jaroslav Povšik (*1955)

Chairman of the Labour Union branch, OS KOVO
ŠKODA AUTO a.s., Mladá Boleslav

16 April 1993 ^{2/}

Ing. Jan Uhlíř (*1944)

Chairman of the Labour Union OS KOVO, Prague

11 July 1994 ^{2/}

The following 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

The following resigned
from the Supervisory Board:

Dipl. Kfm. Detlef Wittig (*1942)

Chairman, Member of the Board of Directors of the
Volkswagen Brand, Wolfsburg

1 July 2000 – 30 September 2004 ^{1/}

The following appointed
to the Board of Directors:

Horst Mühl (*1947)

Member since 1 January 2005

The following resigned
from the Board of Directors:

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

Chairman since 16 April 1997 till 30 September 2004

Dipl. Ing. Karl-Günter Büsching (*1941)

Member till 31 December 2004

^{1/} Dates indicate the beginning and end of membership
in the relevant body.

^{2/} Date indicates the beginning 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 Company's situation, its financial performance, and its business policies.

Financial processes subject to the approval of the Supervisory Board, as required by law and statutory regulations, as well as those of special importance, were discussed in detail at the meetings of the Supervisory Board. The Supervisory Board continuously oversaw the activities of the Company's management on the basis of written and oral reports by the Board of Directors, thereby properly fulfilling its obligations as prescribed by law.

Under a resolution dated 20 February 2004, VOLKSWAGEN AKTIENGESELLSCHAFT, 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 2004.

The auditors issued an unqualified opinion on the annual financial statements of ŠKODA AUTO a.s. for the year ended 31 December 2004. At its meeting held on 10 February 2005, the Supervisory Board discussed the financial results and accepted the proposal of the Board of Directors regarding the allocation of profit. On the recommendation of the Board of Directors, the Supervisory Board resolved to submit the 2004 annual financial statements to the sole shareholder, VOLKSWAGEN AKTIENGESELLSCHAFT, for approval.

A handwritten signature in black ink, appearing to read 'Kulhánek' with a stylized flourish at the end.

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

Corporate Profile

The history of Škoda Auto dates back to 1895, when Václav Laurin and Václav Klement teamed up to establish a bicycle manufacture and repair shop that later expanded its range to include motorcycles. After a series of business successes, a small step was all that was needed to manufacture automobiles. And they began to do exactly that in 1905 with the Voiturette A. In the period that followed, production expanded and grew beyond the confines of a family company. In 1907 the operation became a joint-stock company and, in 1925, economic pressure led the two founders to join forces with the biggest machinery manufacturing industry in Bohemia at the time – Škoda Plzeň. From that time on, vehicles manufactured in the factory bore the Škoda brand name and the well-known logo of the winged arrow in a ring.

From there, Škoda's road to becoming the prosperous and successful company it is today, with active operations in almost 90 markets the world over, was winding and difficult due to the political and macroeconomic circumstances of the time. The political changes of 1989 brought a new set of rules, and a return to a market economy. The ensuing period was characterised by a search for a strong foreign partner. It was necessary to bring new know-how and investment to Škoda. In December 1990, the Government decided to co-operate with the German automotive group Volkswagen and, on 16 April 1991, Škoda became the Group's fourth brand after Volkswagen, Audi, and Seat. In co-operation with the new partner, necessary processes were put in place focusing on the general rationalisation and transformation of the Company. The core goal was to improve the quality of manufacturing and products, expand the product range, build and optimise the dealer network, and, not least, foster and systematically reinforce the Škoda brand image.



In 2005, Škoda Auto will celebrate a double jubilee. It will be 110 years since the mechanic Václav Laurin and the bookseller Václav Klement started manufacturing Slavia bicycles, and exactly 100 years since the first automobile left the Laurin & Klement company workshop. Only two other automotive brands in the world can boast such a history; we are building on this exceptional tradition by means of our current Company policy: Škoda Auto develops, produces, and offers high-quality and environmentally friendly cars, original parts, accessories, and services whose characteristics not only meet, but also exceed customer wishes. Škoda Auto's goal, in accordance with the VOLKSWAGEN EXCELLENCE Group strategy, is to thrill customers so they return to the Škoda brand with confidence.

In all its business activities, Škoda Auto is aware of its responsibility towards its customers, employees, shareholders, business partners, the public and the environment. These corporate factors and various interest groups must be actively guided to ensure the status quo, allowing us to make sure that future generations have just as good, or even better conditions for further development. The combination of these factors, taken together, yields the principle of sustainable development. The primary principles are described in detail in the Škoda Auto Sustainability Report, which Škoda Auto published in 2004.

As the largest Czech exporter, Škoda Auto is fully aware that its responsibility is not limited just to the Czech Republic's economy. Škoda Auto is involved in all areas of society and will continue its active support of social, education, and cultural projects.

Status Report

Development of the Czech Economy

The Czech economy accelerated its pace of growth more than anticipated. Year-on-year growth of the Gross Domestic Product (GDP) reached 4.1% in the second quarter. The last time the economy grew this fast was in 2000, prior to the onset of the global recession. All told, GDP grew by 3.7% (estimate) in 2004. Of particular importance is the favourable structure of the growth. The most dynamic element of GDP was capital spending. On the other hand, household consumption grew at a slower pace. Czech industry contributed to GDP growth by expanding 10.2% (estimate), while construction was up 10.6% (estimate).

The Czech Republic's accession to the European Union in May brought changes in prices and conditions in all areas of the domestic economy. As of 1 May 2004, the standard value-added tax rate decreased from 22% to 19%. Although at the same time, a number of goods and services were reclassified from the reduced 5% rate to the standard rate. These included construction work, restaurant services, railroad and marine/river freight transport, provision of education by entities other than selected school facilities, and others.

In conjunction with the Czech Republic's accession to the European Union, there was a change in the way the fundamental macroeconomic indicator – Gross Domestic Product – is calculated. The Czech Statistical Office revised the GDP time line according to the EU rules known as ESA 95. For the past year, the revised GDP according to the above methodology was slightly higher than the previously published pace of economic growth.

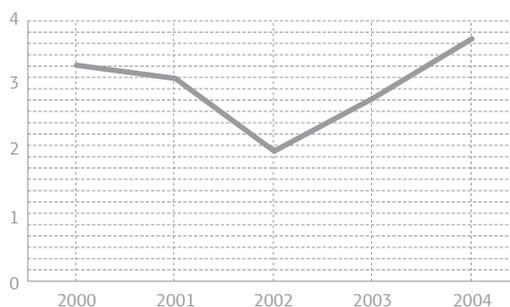
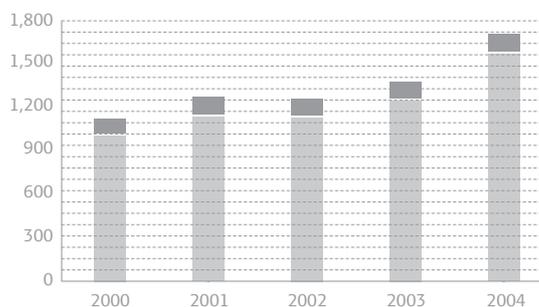


In year-on-year terms, inflation was 2.8%. Among import prices and prices charged by industrial producers, there was steep growth in oil and metal prices. After a year of calm, the Czech Republic began to see movements in interest rates – in mid-2004 the Czech National Bank's Board of Governors decided to increase interest rates. The ongoing inflow of Foreign Direct Investment and the higher pace of economic growth in the Czech Republic compared to the Eurozone generated moderate gains in the Czech Republic's currency, the Koruna.

The unemployment rate reached 9.5% in December 2004, and the number of people out of work for an extended period of time continued to grow. Compared to the previous year, fewer jobs were created by the government's employment policy.

Higher economic growth at the global and, in particular, the European level contributed markedly to the increased production capacities of domestic companies. Exports, too, exhibited a high degree of dynamism. August's foreign trade result – a deficit of just CZK 2.4 billion – was the best in the Czech Republic's entire history as an independent state. Growth in Czech exports was driven in particular by exports of vehicles and machinery. The overall foreign trade deficit for 2004 was CZK 20.6 billion, down CZK 49.2 billion from the previous year. Škoda Auto accounted for 7.7% of the Czech Republic's exports, and the value of exported cars and spare parts reached CZK 131.1 billion. Once again, Škoda Auto was the largest exporter in the Czech Republic.

Czech GDP Growth, 2000 – 2004 (%)

Škoda Auto Share in Czech Exports, 2000 – 2004
(CZK billion)

■ of which: Škoda Auto

Financial Situation

In terms of financial performance, 2004 was one of the best years in Škoda Auto's history. Škoda Auto successfully overcame the persistent sluggishness of the automotive markets and all major financial indicators continued to exhibit growth trends. The equity-to-fixed assets ratio is nearly 80%. Once again, net liquidity was very good – this year's figure is CZK 4.5 billion and sales revenues grew by CZK 8.4 billion (+5.8%) to CZK 153.6 billion.

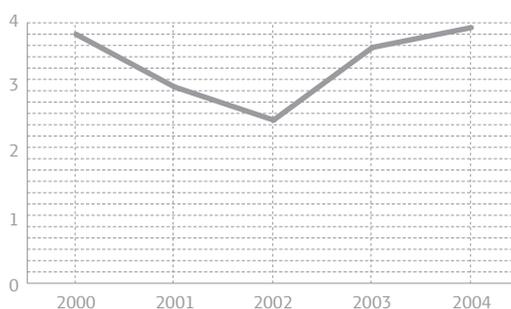
Thanks to higher revenues and measures taken in the 'ForMotion' programme, the 2004 operating profit rose to CZK 5.9 billion (up 12.4% compared to 2003). The record profit before taxation of CZK 4.8 billion is nearly double last year's figure (CZK +2.3 billion). The consolidation phase launched two years ago has therefore started to reap rewards. The Company has reached the halfway point on the path towards the goals it has set itself.

Balance Sheet and Financing

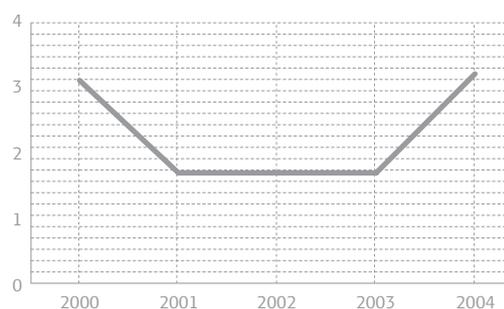
During the past fiscal year, the Company's total assets increased by CZK 5.7 billion to CZK 71.8 billion (+8.6%). At the same time, as a result of lower investments, the value of the Company's fixed assets fell to CZK 41.1 billion (-6.7%). Of the total investments of CZK 8.4 billion, the most significant components were spending on the new Octavia, followed by investments in the revamping of production technologies and IT technologies. As a result of concurrent production of both generations of the Octavia, the Company's inventories increased by 18.5% to CZK 8.4 billion.

Thanks to the improvement of operating profit, ongoing optimising of the receivables structure, further expansion in the use of factoring, and changes in VAT recognition when purchasing goods from other European Union countries, there was a major improvement in the financing of the Company. This, in turn, made it possible to utilise the newly obtained cash further by granting CZK 8.6 billion in short-term loans to affiliated companies within the Volkswagen Group. Without these loans, the level of receivables would have fallen even more, by 26.8% to CZK 9.1 billion.

Operating Profit-to-Revenues Ratio (%)



Profit Before Taxation-to-Revenues Ratio (%)



Equity increased by 3.4% to CZK 32.8 billion, mainly as a result of the Company's 2004 profit. A CZK 3.1 billion dividend was paid to the Company's sole shareholder, VOLKSWAGEN AG. Bonds were the only means of debt financing used by Škoda Auto in 2004, as the Company had already eliminated all its bridge loans. No loans were drawn during 2004.

Thanks to the further optimising of receivables and lower capital expenditures, the Company's net liquidity was very good, amounting to CZK 4.5 billion (2003: CZK 2.5 billion). Adjusted for the Company's lending activities to Volkswagen Group companies, the value would be even higher: CZK 13.1 billion. Gross cash flow, at CZK 15.2 billion, was 196.6% of overall capital expenditures (CZK 7.7 billion).

Sales Revenues

Following the flat performance last year, sales revenues grew significantly by 5.8% to CZK 153.6 billion. This improvement took place thanks primarily to the highly successful market launch of the new Octavia, ongoing demand for existing vehicle models and growth in sales of original parts and accessories. Vehicles, at 90.3%, were the largest component in overall sales revenues. Spare parts and accessories accounted for 6.7%, parts deliveries to Group companies equated to 2.5% of overall revenues, and 0.5% was attributable to other goods and services. 85.4% of sales revenues were generated outside the Czech Republic.

Despite stagnating markets in Western Europe, the Company managed to push up its sales revenues significantly by 10.5% to CZK 89.9 billion. Škoda Auto's domestic sales revenues were in line with the performance of the overall Czech automotive market in 2004, falling 8.2% year on year to CZK 22.4 billion.

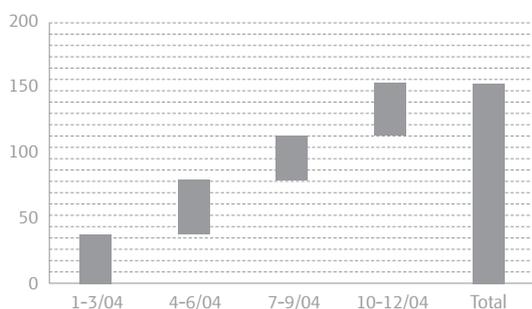
Some Central & Eastern European markets did not maintain the high rates of growth witnessed in early 2004 and demand cooled off after some of the countries joined the European Union. In year-on-year terms, however, the region reported growth in sales revenues, which rose 3.3% to CZK 33.7 billion.

As in all other foreign markets, Škoda Auto performed well in Asia and overseas, with significant growth in vehicle sales, driving sales revenues upward to CZK 7.6 billion (up 11.2% from 2003). The countries that contributed the most to this performance were Turkey and India.

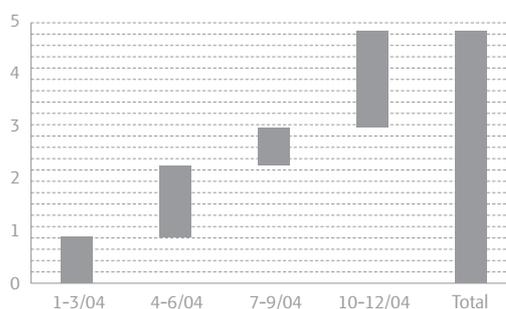
Profit

In 2004, Škoda Auto became involved in the Volkswagen Group's 'ForMotion' programme, which is designed to increase performance with a focus on the potential for improvement in its financial situation and profit. The aim of the measures implemented by Škoda Auto and its subsidiaries is to make savings of approximately EUR 200 million by the end of 2005.

Quarter-by-Quarter Total Revenues (CZK billion)



Quarter-by-Quarter Profit Before Taxation (CZK billion)



2004 saw another improvement in value added, which was driven mainly by the reason mentioned above and by increased sales revenues. Value added reached CZK 24.9 billion (up 6.6% from 2003) and the value added-to-sales revenues ratio increased to 16.2%. The operating profit also improved, rising to CZK 5.9 billion (up 12.4% compared to 2003).

The slight increase in depreciation/amortisation (of CZK 0.3 billion to CZK 10.6 billion) was caused by the capitalisation of investments related to the production of the new Octavia. Depreciation/amortisation can be expected to rise further in the next year.

A substantial improvement (of CZK 1.7 billion) was achieved in the financial result. The resulting net expense of CZK 1.0 billion (a 61.4% improvement) was affected considerably by the effect of interest income from intragroup loans, lower factoring charges and net foreign exchange gains. At the same time, this year's earnings were not dented by the one-off burden in 2003 caused by the sale of interest-rate swaps.

All of these aspects were reflected in the record profit before taxation figure, which was CZK 4.8 billion, up by CZK 2.3 billion (+91.3%) from last year's figure. Tax expenses totalled CZK 1.3 billion. The total effective tax rate of 27.4% is lower than the 2003 figure (41.2%) thanks primarily to higher capitalisation of fixed assets in 2004 (resulting in a higher deduction for newly capitalised fixed assets) and a decrease in the corporate tax rate. In 2004, the profit after taxation figure improved by CZK 2.0 billion and, like a number of figures already mentioned, reached

a record level of CZK 3.5 billion (2003: CZK 1.5 billion). The Company has grasped this result as a motivating factor and a commitment to strive towards improved finances in the years to come.

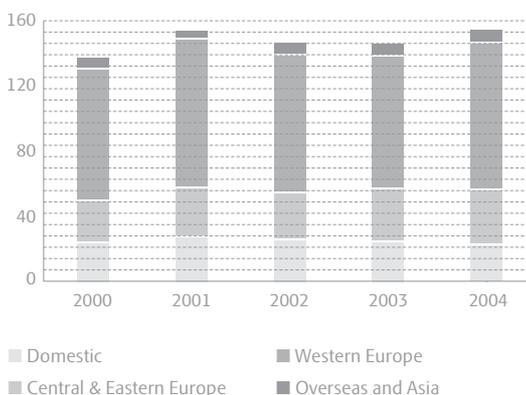
Consolidated Results According to IFRS (unaudited)

As an issuer of registered securities (bonds) traded on a public securities market, ŠKODA AUTO a.s. is transitioning, in accordance with amended legislation, to financial accounting and reporting according to International Financial Reporting Standards (IFRS) effective from the beginning of 2005. This transition also includes the requirement to publish figures for the entire consolidated group.

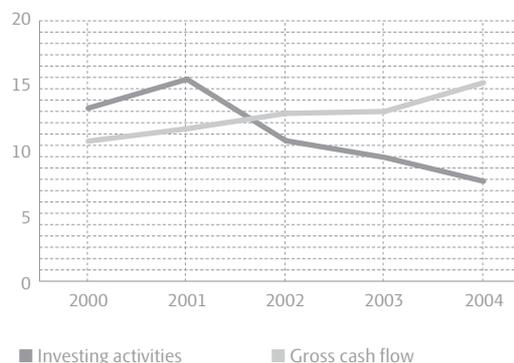
The consolidated group consists of the parent company ŠKODA AUTO a.s. and its material subsidiaries, ŠkodaAuto Deutschland GmbH, ŠKODA AUTO Slovensko, s.r.o., Skoda Auto Polska S.A. and Skoda Auto India Private Ltd., which in view of the parent company's majority ownership are fully consolidated.

The selected figures presented below are indicative and are intended for informational purposes only. They are extracted from information provided to VOLKSWAGEN AG for the consolidation purposes of the Volkswagen Group and accordingly they do not reflect the adjustments which will be required following the first time adoption of IFRS by Škoda Auto in accordance with IFRS 1. These adjustments will be included in the published first quarter 2005 results.

Sales Revenues by Region (CZK billion)



Investing Activities and Gross Cash Flow (CZK billion)



Since 2001 Škoda Auto has been included in the consolidated financial statements of VOLKSWAGEN AG prepared in accordance with IFRS. For this reason the additional costs of adopting IFRS from 1 January 2005 are not expected to be significant.

The differences between the unconsolidated results according to IFRS and according to Czech Accounting Standards (CAS) was caused by differing accounting methods in general, and in particular in the treatment of development costs, depreciation/amortisation of fixed assets, accounting of financial instruments and other influences.

Selected Figures According to IFRS

		Škoda Brand Consolidated Group (unaudited)	ŠKODA AUTO a.s. (unaudited)
Vehicle sales	vehicles	444,458	441,820
Production	vehicles	443,868	444,121
Number of employees (as of 31 Dec. 2004)	persons	25,225	24,561
Total revenues	EUR millions	5,131.7	4,873.4
Operating profit	EUR millions	198.9	179.2
	%	3.9	3.7
Financial result	EUR millions	(36.1)	(30.8)
Profit before taxation	EUR millions	163.2	149.3
	%	3.2	3.1
Profit after taxation	EUR millions	115.7	108.0
	%	2.3	2.2
Earnings-to-equity ratio	%	6.5	6.6
Total assets	EUR millions	3,121.9	2,879.6
Fixed assets	EUR millions	1,824.4	1,830.8
Current and other assets	EUR millions	1,297.5	1,048.8
Equity	EUR millions	1,473.6	1,484.0
Liabilities, including other liabilities	EUR millions	1,648.3	1,395.6
Gross cash flow	EUR millions	542	527
Net cash flow	EUR millions	543	421
Investment	EUR millions	318.8	325.3
Net liquidity	EUR millions	(23.2)	76.7
Equity ratio	%	47.2	51.5
Equity-to-fixed assets ratio	%	80.8	81.1

Conversion of Unconsolidated After-tax Result According to IFRS and Czech Accounting Standards (CAS) for ŠKODA AUTO a.s. (in millions of CZK)

Profit after taxation – IFRS	3,434.1
Development expenses	(576.5)
Depreciation/amortisation of fixed assets	631.2
Financial derivatives	102.0
Deferred tax – IFRS	(167.7)
Deferred tax – CAS	163.6
Other influences (discounting of provisions, asset adjustments, etc.)	(90.1)
Profit after taxation – CAS	3,496.6

Subsidiaries (according to national accounting standards)

The various automotive markets were influenced by differing trends and this also applied to the results of the Company's major subsidiaries. The ownership structure of all Škoda Auto's investments is shown on page 92.

Škoda Auto Deutschland

2004 was a very successful year for the Škoda brand in the German market. In a more or less flat overall market of 3.27 million vehicles, Škoda Auto Deutschland sold a total of 78,051 Škoda cars to customers (up 7,996 cars) to gain a market share of 2.4%. Sales revenues developed in line with unit sales, reaching CZK 34.7 billion (EUR 1,087.3 million) for an increase of 16.8% compared to the previous year. Profit before taxation reached CZK 92.5 million (EUR 2.9 million).

Owing to the consequent sale to Škoda Bank (Volkswagen Bank GmbH branch), in the form of factoring, of receivables for vehicles sold, and to the thorough optimisation of inventories on hand, net liquidity rose by CZK 3.6 billion (EUR 108.0 million) compared to the previous year, which was a major improvement.

Škoda Auto Polska

Following a short-term upswing in the overall Polish market during the first four months of 2004 prior to the country's accession to the European Union, the second half of the year saw the market contract again due to growth in used car imports from Western Europe. The 318,082 vehicles sold this year represents a decline by

a full 40,350 vehicles (-11.3%) from the previous year's figure. Even though Škoda Auto Polska managed to expand its market share from 12.0% to 12.5% in this market environment, the Škoda brand's overall sales of 39,693 vehicles were down by 3,234 vehicles from last year's figure. Škoda is currently the second best-selling brand in Poland after the domestically-manufactured Fiat.

Profit before taxation totalled CZK 69.1 million (PLN 9.8 million), which is CZK 23.6 million (PLN 3.0 million) less than in 2003. The decline was due primarily to increased sales support expenditures in 2004, which were made necessary by the volatile situation in the Polish automotive market.

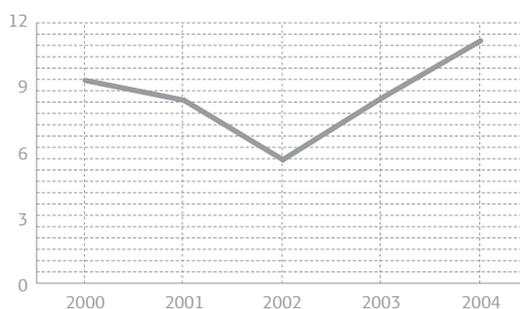
Škoda Auto Slovensko

With 57,437 vehicles sold, the overall market remained at last year's level, although this was achieved only at the cost of a major increase in sales support activities across the board by all our competitors.

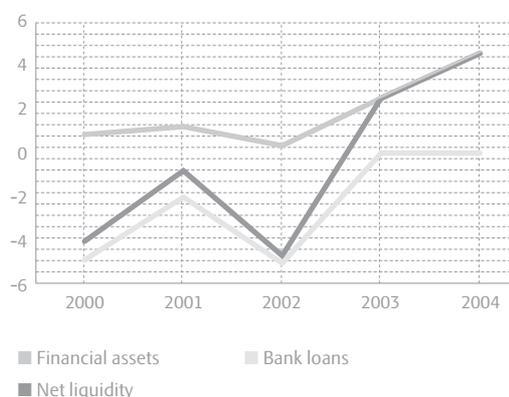
In this situation, Škoda Auto Slovensko managed to deliver to customers 23,150 vehicles, or 2,578 vehicles fewer than last year, and the Škoda brand's market share was 40.1%, or 4.1% less than in 2003. However, the Fabia and the Octavia continue to be the best-selling models in the market.

Increased sales support expenditures in an environment of increased competition led to profit before taxation of CZK 2.9 million (SKK 3.7 million). Profit before taxation in 2003 was CZK 16.0 million (SKK 20.9 million).

Škoda Auto – Profit After Taxation-to-Equity Ratio (%)



Škoda Auto – Net Liquidity (CZK billion)





Škoda Auto India

February 2004 was an important milestone for Škoda Auto India as production capacities switched from temporary rented premises to the company's own complex, which was built at a cost of approximately CZK 250 million (INR 426 million). This assembly facility produces Octavia cars and during the year 2004 the offering was expanded to include imports of completed Superb cars.

In 2004, the Indian plant assembled 7,050 Octavia Tours (2,347 more than in 2003); 7,202 cars were delivered to Indian customers, a rise of 2,546 on 2003.

Another key event in 2004 was the harmonisation of the accounting period with that of the parent company, Škoda Auto, i.e. the transfer from an April-March financial year to a system corresponding with the calendar year. This means the financial figures for 2004 only cover the period from April to December and therefore year-on-year financial comparisons are not possible.

Although one-off relocation costs and the costs of production start-up in the company's own complex had quite a severe impact on profit before taxation, this factor was set off by the rising number of sales, ensuring a profit of CZK 75.4 million (INR 134.3 million). In the previous accounting period, i.e. April 2003 – March 2004, profit before taxation was CZK -178.4 million (INR -299 million).

During 2004, there was an increase in the company's registered capital by CZK 342 million (INR 645 million).

Financial Risk Management

In its business operations, Škoda Auto is exposed to risks related in particular to movements in exchange rates, interest rates in the financial markets and liquidity development. The Company's goal is to eliminate or minimise these risks. This goal is achieved through a flexible hedging strategy with the use of various standard products. All hedging transactions are co-ordinated and implemented in co-operation with our parent company, VOLKSWAGEN AG.

Exchange Rate Risk

Risk exposure arises from the structure of income and expenses denominated in foreign currencies. This income from sales and foreign-currency payments for inputs (in accordance with a regularly-updated forex plan) are hedged using financial market instruments. Hedging instruments used include currency forwards and swaps, which are entered into for terms of up to 18 months. The most hedged currencies in 2004 were the Euro, the Pound Sterling and the Polish Zloty.

Interest Rate Risk

Risk exposure due to movements in interest rates results from the medium- and long-term liabilities of Škoda Auto relating to the Company's needs to procure financing for its capital expenditures. Interest rate swaps are used to hedge risks in this area.

Liquidity Risk

A liquidity forecast with a fixed planning horizon and credit lines agreements with banks safeguard company's liquidity risk.



Net Liquidity (CZK million)

	31 Dec. 2001	31 Dec. 2002	31 Dec. 2003	31 Dec. 2004	Change
Financial assets	1,202	340	2,495	4,534	2,039
Bank loans	(2,000)	(5,000)	0	0	0
Net liquidity	(798)	(4,660)	2,495	4,534	2,039

Profit and Loss Account (CZK million)

	2001	%	2002	%	2003	%	2004	%
Revenues	153,271	100.0	145,694	100.0	145,197	100.0	153,550	100.0
Value added	22,296	14.6	22,056	15.1	23,343	16.0	24,884	16.2
Staff costs	7,583	5.0	7,834	5.4	8,060	5.6	8,500	5.5
Depreciation/amortisation	9,646	6.3	10,826	7.4	10,296	7.0	10,606	6.9
Other income (+) and expenses (-)	(424)	(0.3)	281	0.2	222	0.2	78	0.1
Operating profit	4,643	3.0	3,677	2.5	5,209	3.6	5,856	3.9
Financial result	(1,969)	(1.3)	(1,188)	(0.8)	(2,692)	(1.9)	(1,041)	(0.7)
Profit before taxation	2,674	1.7	2,489	1.7	2,517	1.7	4,815	3.2
Income tax for the period	545	0.3	664	0.4	1,039	0.7	1,318	0.9
Profit after taxation	2,129	1.4	1,825	1.3	1,478	1.0	3,497	2.3
Profit after taxation-to-equity ratio	8.4%		5.7%		8.5%		11.1%	

Value Added (CZK million)

	2001	%	2002	%	2003	%	2004	%
Sales revenues	153,271	100.0	145,694	100.0	145,197	100.0	153,550	100.0
Change in inventory	(661)	(0.4)	63	0.0	(686)	(0.5)	1,045	0.7
Own work capitalised	1,774	1.2	1,776	1.2	2,215	1.5	1,448	0.9
Sales of production	154,384	100.8	147,533	101.2	146,726	101.0	156,043	101.6
Cost of raw materials and consumables*	116,350	75.9	109,868	75.4	108,283	74.6	115,382	75.1
Services	15,738	10.3	15,609	10.7	15,100	10.4	15,777	10.3
Value added	22,296	14.6	22,056	15.1	23,343	16.0	24,884	16.2

* Including acquisition cost of purchased goods.

Balance Sheet Structure (CZK million)

	31 Dec. 2001	%	31 Dec. 2002	%	31 Dec. 2003	%	31 Dec. 2004	%
Assets								
Fixed assets	45,008	67.6	44,873	67.1	44,074	66.6	41,143	57.3
Inventories	7,517	11.3	7,658	11.5	7,081	10.7	8,389	11.7
Receivables and other assets	12,884	19.3	13,947	20.9	12,501	18.9	17,771	24.7
Financial assets	1,202	1.8	340	0.5	2,495	3.8	4,534	6.3
Total assets	66,611	100.0	66,818	100.0	66,151	100.0	71,837	100.0
Liabilities and equity								
Equity	28,157	42.3	29,817	44.6	31,758	48.0	32,844	45.7
Liabilities, including other liabilities	38,454	57.7	37,001	55.4	34,393	52.0	38,993	54.3
Total liabilities and equity	66,611	100.0	66,818	100.0	66,151	100.0	71,837	100.0

Change in Net Liquidity (CZK million)

	2000	2001	2002	2003	2004
Profit after taxation	+3,336	+2,129	+1,825	+1,478	+3,497
Depreciation and adjustments for non-cash transactions*	+8,051	+9,732	+11,102	+10,458	+10,709
Change in medium- and long-term provisions	-631	-168	-73	+1,066	+970
+ Gross cash flow	+10,756	+11,693	+12,854	+13,002	+15,176
Change in inventories	-1,311	+1,497	-140	+577	-1,308
Change in loans	0	0	0	0	-8,600
Change in receivables and other assets	-5,361	+4,618	-591	+1,535	+3,566
Change in short-term provisions	-33	-303	+582	-339	+336
Change in equity	-4	-4	0	0	-3,050
Change in liabilities, including other liabilities (excl. change in borrowings)	+6,533	+1,146	-5,781	+1,901	+3,638
+ Other internal financing	-176	+6,954	-5,930	+3,675	-5,418
= Net cash in-flow from ordinary activities	+10,580	+18,647	+6,924	+16,677	+9,758
Capital investments	-13,873	-16,235	-11,586	-10,248	-8,430
Disposals of fixed assets	+625	+797	+800	+726	+711
- Investing activities	-13,248	-15,438	-10,786	-9,522	-7,719
= Change in net liquidity	-2,668	+3,209	-3,862	+7,155	+2,039

* Includes amortisation of complex prepaid expenses and creation of provisions related to fixed assets.

Selected Quarterly Figures (CZK million)

Quarter	1-3/2004	4-6/2004	7-9/2004	10-12/2004	Total
Sales (vehicles)	108,930	121,354	95,980	115,556	441,820
Total revenues	37,398	41,523	34,017	40,612	153,550
Value added	6,665	6,631	5,367	6,221	24,884
Operating profit	1,473	1,676	904	1,803	5,856
Profit before taxation	888	1,367	719	1,841	4,815

Technical Development

Within the Volkswagen Group, Škoda Auto Technical Development, with its 1,329 employees, is the third largest R&D centre after the Volkswagen and Audi brands. Thanks to cutting-edge equipment and highly qualified employees, it is capable of independently developing completely new vehicles. From the very beginning, the Company's integration into the Group has been taken into account and synergies leveraged. Within its principal competencies and to the extent of its free capacity, the unit also takes on development tasks for other brands and companies within the Group. This supports the exchange of best practices and the ongoing education of employees abroad.

The history of Škoda Auto goes back to 1895, when the Company's founders developed their first bicycles and motorcycles with great success. Even today, this tradition of more than a century, combined with dedication to finding the best possible technical solutions and advantages for customers in the development of new vehicles, is reflected in many areas. Technical Development tasks are focused on further development, continuous improvement, and care for the model line, as well as special versions of the successful models in series production – the Fabia, the Octavia, and the Superb.

The principal competencies of Technical Development include distinctive design, concept-car development using modern virtual methods, production of digital data control models, interior and exterior engineering, the development of engines, electrical and electronic systems, chassis and engine optimising, prototype construction, and testing of vehicles and components. By involving Technical Development in the Volkswagen Group development team, approximately 10% of its capacity was used in development work for other brands and Group companies.

In 2004, most of the Škoda brand's development capacity was used in further development of the Fabia line. The new Octavia was unveiled at the 2004 Motor Show

in Geneva, while the model's second variant, the Octavia Combi (including the 4x4 version), was presented to the public at the Paris 2004 Motor Show. With each new generation of models, Škoda Auto Technical Development endeavours to improve vehicle reliability and quality, functionality, and attractive design while maintaining a favourable cost-performance ratio.

For all remaining model lines, model updates and added-value products were developed, some of them with new engines and gearboxes that will be launched in 2005.

In 2004, a total of CZK 4.9 billion, or 3.2% of the Company's total turnover, was invested in activities relating to researching and developing new vehicles and improving existing models. In December 2004 the Technical Development work force numbered 1,329 employees, an increase of 12 over the previous year. Capital investment in updating and revamping testing equipment at Technical Development totalled CZK 146.8 million. In the years to come, there will be new tasks to fulfil in conjunction with more stringent emissions limits and safety standards under new legislation, including measures to protect pedestrians. As part of plans to expand Technical Development Centre, funding of CZK 246 million was approved for the first stage of construction (covering 2004 and 2005); of this, CZK 39 million was invested in 2004.

The New Škoda Octavia

At the 2004 Motor Show in Geneva, the new Octavia was successfully introduced to the world. The attractive and timeless design, clever technical solutions, good workmanship, high level of quality and reliability, and the advantageous cost-performance ratio – these are the characteristic strengths of the new Octavia.

The vehicle is powered by reliable, high-torque Volkswagen Group engines. The range of petrol engines includes the modern 1.4 l 55 kW; 1.6 l 75 kW; 1.6 l 85 kW FSI and 2.0 l 110 kW FSI engines. On the diesel side, the engine options include the 1.9 l 77 kW TDI-PD and the 2.0 l 103 kW l TDI-PD. All of the engines are offered with modern manual gearboxes and the modern sports-car DSG (Direct Shift Gearbox), which provides a high degree of gear-shifting comfort without loss of performance, excellent acceleration, and favourable fuel efficiency. All engine and gearbox combinations currently on offer comply with the EU 4 emissions standard.

The new Octavia Combi, which fills out the palette of Octavia models, was introduced at the 2004 Motor Show in Paris. This model is also available in a 4x4 version with a proven and improved Haldex gearbox and two engine options: 1.9 l 77 kW TDI-PD and 2.0 l 110 kW FSI.

Concurrently with the new Octavia, the Company continues to offer, in response to market demand, the current Octavia Tour. The timeless design combined with continuous modernisation still makes the Octavia Tour a competitive vehicle. As the parallel offering of both models clearly emphasises, further development leading to the new Octavia has resulted in improvements in driving comfort, functionality, and dynamics that make this vehicle more than a mere successor.

Fabia and Superb

During 2004 the Company also presented new model updates and product improvements to our model lines. This year's updates to the Fabia include a number of changes and improvements. The most obvious changes to the Fabia include a new bumper design, new tail- and headlights, as well as new interior colour schemes and a new fascia design. In addition to new engine options, updates to the Superb include the development of new fold-down seatbacks in the rear of the car that allow for better utilisation of the luggage space. This facilitates the efficient transportation of bulky objects up to 1.8 metres in length.

In the future, Technical Development is preparing new vehicle concepts for the timely revamping of existing model lines. Using design studies such as the Škoda Roomster, which was presented at the last motor show in Frankfurt, the Company continues to research how customers and markets react to new concept cars. In this respect, Škoda is endeavouring to expand its model range in a targeted and economical manner in the future.

Certification

On 12 October 2004, RW TÜV carried out a repeat audit according to the ISO 9001 and ISO 14001 and confirmed that all necessary processes and methods in the Technical Development area have been successfully established and are in use.

Škoda Motorsport

In early 2004, the Škoda Motorsport World Rally Team continued to develop and improve the Fabia WRC in the framework of its current homologation. This development work could only be performed during the six-month break in WRC events. Afterwards, in the 2004 FIA World Rally Championship, the Škoda Motorsport team took part in seven races. Intensive development work on the Fabia WRC enhanced its competitiveness and significantly cut its time deficits against the fastest drivers in the championship.

The motorsport origins of the Mladá Boleslav vehicle manufacturer date back to 1901, when shop worker Narcis Podsedníček took part in the Paris – Berlin race on his Laurin & Klement motorcycle. The first cars followed on smoothly from the motorcycle era and also proved highly successful. In the 1930s, the Škoda Popular performed well in the popular endurance races of the time, and its greatest achievement was its successful participation in the Rally Monte Carlo. During the Second World War, engineers covertly reconstructed the successful pre-war Popular model. The Škoda 1101, which earned itself the moniker 'Tudor', was launched in the autumn of 1945 and was the basis for the production of the Škoda Sport and Škoda Supersport customised sports cars. The new rear wheel drive model (the Škoda 1100 MB) chalked up considerable success, and its feats were emulated by its successor (the Škoda 130 RS). The professional Škoda Motorsport team was formed in 1991 following the new partnership with Volkswagen. Initially the team used Favorit and Felicia models, but the real turning point came in 1998 with the launch of the Octavia WRC, which raised Škoda to the elite category of the world rally

championship for the first time in its history. Notable achievements recorded by the Octavia WRC include first place in one of the special stages at the 2000 Catalunya Rally and overall third place in the 2001 Safari Rally. Naturally, the Fabia WRC has benefited from the experience gained in racing the Octavia WRC and continues Škoda's rich tradition of motorsport activities.

In the 2005 season, Škoda Motorsport will participate in all sixteen WRC rallies and fight it out for one of the top rankings. This target which is sure to be boosted by technical improvements in the 2004 homologation level, including chassis enhancements, a reduction in and better distribution of weight, and optimised engine performance, making it possible for crews to clock up faster times.

At the Czech Republic Championship, the domestic Škoda-Matador team benefited from factory support and its Fabia WRC driver Jan Kopecký became the Champion of the Czech Republic for 2004.

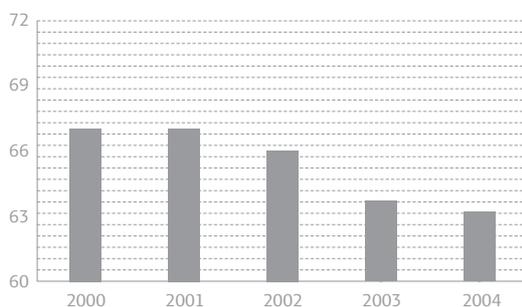
Procurement

As in past years, the exchange rate of the Czech Koruna influenced the competitiveness of domestic suppliers. The production material purchasing volume totalled CZK 92.3 billion (2003: CZK 89.3 billion). Czech suppliers' share in the production purchasing volume in 2004 was 63.2% (2003: 63.7%).

The declining share of Czech suppliers' turnover in Škoda Auto's production purchasing is relative, because, at the same time, production purchasing within the Group's LPT (Local Purchasing Team) is co-creating conditions for suppliers from Eastern Europe to deliver to the entire Volkswagen Group. Czech suppliers' volume of supplies to other Group brands has been on the rise in the past few years, and more than tripled during 2004.

The importance of local suppliers is underlined both by their share in overall supplies and by the fact that nearly half of turnover is supplied by the 20 largest suppliers, 18 of which are from the Czech Republic, as well as by logistical accessibility – 15 of these key suppliers are from Mladá Boleslav and the surrounding area. What is more, last year Škoda Auto's LPT expanded its reach within the Group to include Ukraine and the Baltic states of Lithuania, Latvia, and Estonia.

Share of Czech Suppliers in Overall Purchases of Production Materials, Excl. Group Supplies (%)



In 2004, the issuance of proforma invoices for deliveries of goods was introduced with a number of foreign suppliers and the year also saw expanded use of 'self-billing', in which the Company issues the domestic supplier's invoices.

In the B2B project, the use of the supplier platform continued and there was more electronic calling-off of overhead materials according to electronic catalogues.

In conjunction with further expansions of Global Sourcing in general procurement, supported by cutting-edge computer technology, the year saw continued increases in the number of suppliers connected to the supplier platform. One of the most important applications in the supplier platform is on-line negotiations, 97 of which were held last year for a total value of CZK 6.1 billion; EUR 190 million (2003: 75 negotiations; CZK 3.7 billion; EUR 117.5 million).

One of Procurement's key tasks last year was to secure parts for use in production of the new Octavia, which commenced last year, for the expanding production of engines and engine components, and for an improvement in the material costs of cars currently produced within the 'ForMotion' programme.

A major event from the practical purchasing perspective was the Czech Republic's accession to the European Union. Here, Procurement played a role in implementing measures to ensure the problem-free roll-out of new rules and regulations (Intrastat etc.).

Production and Logistics

Highly skilled employees, reliably functioning manufacturing processes, reasonable utilisation of modern technologies, and a rich corporate tradition form the cornerstones of today's production in Škoda Auto plants. In 2004 Škoda Auto produced a total of 444,121 vehicles. Compared to 2003, that number represents production growth of 6,567 vehicles (+1.5%). This growth was driven primarily by the expansion of the production programme to include the new Octavia. Average per-day production for 2004 was 1,868 vehicles.

The beginning of 2004 was connected with the new Octavia and successful commencement of its series production at the Vrchlabí plant during February. In August, production of the new Octavia began in Mladá Boleslav as well and October marked the start of production of the impatiently awaited Combi and Combi 4x4 versions. At the end of 2004 the number of vehicles produced per day reached 600. In cumulative terms, a total of 58,789 vehicles were produced in 2004, 93.8% (55,126) of which were new Octavias and 6.2% (3,663) were new Octavia Combis.

In 2004 the Company also maintained concurrent production of the existing Octavia (Tour), which is still selling well. A total of 122,531 of these left the Company's production lines, a year-on-year decline of just 21.7%. On 17 February, the millionth car in this popular line (first produced in 1996) left the factory gates. In 2004 a total of 70,987 Octavias (57.9%) and 51,544 Octavia Combis (42.1%) were produced. During August, assembly of this model was moved from Mladá Boleslav to the Vrchlabí assembly plant, where production will continue.

The production volume of the Fabia model for 2004 totalled 239,902 vehicles. On 8 April, the millionth Fabia (an RS) to be manufactured since production began in 1999 left the production line. In August, the entire Fabia line underwent a thorough design make-over that lent

a fresher look and new elements to the vehicle, both inside and out. With its 54% share of overall production volume, the Fabia continues to be the Škoda brand's core product.

The Superb saw a significant year-on-year growth in production by 18.8% (3,629 vehicles), representing daily production of 96 vehicles at the Kvasiny plant.

Škoda Auto is well on its way to establishing itself as a supplier of engines, gearboxes, and their components throughout the Group. In terms of the quality and reliability of supplies of these parts, it has occupied top positions in Group performance rankings for a long time now.

The production of three-cylinder engines (1.2 l 40 kW and 1.2 l 47 kW) exhibited a growth trend in the second half of the year. In 2004 a cumulative total of 204,194 engines was produced, 41.7% of which were engines for partner plants within the Volkswagen Group. During 2004, rising demand for MQ200 gearboxes led to increases in the ongoing production volume; in October, production reached 1,700 units per day. Of the year's total production of 323,228 gearboxes, 33.9% were delivered to customers within the Group. The principal customers for engines and components in 2004 were the plants Volkswagen Bratislava, Volkswagen Pamplona, Seat Martorell, Volkswagen Mosel, and Volkswagen Wolfsburg.



The past year brought further development at the international level of projects for the assembly of SKD and CKD vehicle assemblies and deliveries of completed vehicles. As of February 2004, the India Project was implemented in its own newly-built assembly hall in Aurangabad. The vehicle range was expanded during the year to include new variants of the Octavia model line, and Škoda Auto also began delivering Superbs to the Indian market. The number of vehicles assembled in

Aurangabad in 2004 was 7,050. The dealer network expanded from 20 to 33 dealers.

In all, 8,527 vehicles were produced in the factory in Solomonovo, Ukraine. Assembly in Sarajevo (Bosnia and Herzegovina) resulted in the production of 2,057 vehicles. The vehicles produced in both of these plants are based on the SKD assembly.

Vehicle Production

Model	2000	2001	2002	2003	2004	2004/2003
Total Felicia	121,340	29,095	-	-	-	-
Felicia	71,954	19,647	-	-	-	-
Felicia Combi	26,081	5,467	-	-	-	-
Felicia Pickup, Fun and Vanplus	18,783	3,981	-	-	-	-
Volkswagen Caddy	4,522	-	-	-	-	-
Total Fabia	175,780	261,551	254,966	261,787	239,902	-8.4%
Fabia	161,078	143,790	147,671	141,797	124,464	-12.2%
Fabia Combi	14,702	91,547	78,192	99,043	97,103	-2.0%
Fabia Praktik	-	-	1,161	1,275	1,072	-15.9%
Fabia Sedan	-	26,214	27,942	19,672	17,263	-12.2%
Total Octavia	153,790	169,659	163,198	156,497	181,320	15.9%
Octavia (Tour)	92,411	99,998	100,058	91,047	70,987	-22.0%
Octavia Combi (Tour)	61,379	69,661	63,140	65,450	51,544	-21.2%
New Octavia	-	-	-	-	55,126	-
New Octavia Combi	-	-	-	-	3,663	-
Superb	-	581	24,305	19,270	22,899	18.8%
Total	450,910	460,886	442,469	437,554	444,121	1.5%

Quality

At Škoda Auto, quality is part and parcel of all processes. The quality management system forms a key component of the integrated management system, through which authorities and responsibilities are clearly defined in all areas, leading to the fulfilment of customer needs and continual improvement of products, services, and processes.

In autumn 2004 RW TÜV ESSEN carried out an audit of the integrated management system at Škoda Auto. The audit was successful and led to the renewal of the Company's certificate of compliance with the international ISO standards (ISO 9001:2000 for the quality management system and ISO 14001:1996 for the environmental management system) for another three years.

In 2004, the integrated management system was expanded to include guidelines and rules relating to the Company-wide effort to protect employee health, ensure a safe working environment, and protect the security of data and information. One of the pillars of the integrated management system is the new Škoda Auto Company Policy, which was published in May 2004. This policy builds on the traditional values of the Company's founders, emphasises the key role of the customer, and calls for all Company processes to be focused on satisfying customer demands. This is a guarantee of high-quality products and services that satisfy, to the greatest extent possible, the wishes and requirements of end users.

Customers' requirements regarding quality, workmanship, and the flawless functionality of Škoda vehicles are taken into account in all Company processes from development and production to servicing and the supply of original parts and accessories. During subsequent testing and audits, this compliance is verified in all phases of the process.

Continuous improvements in customers' level of satisfaction have been demonstrated by studies performed by independent bodies. For example, in 2003 Škoda brand vehicles placed 4th in one of the most respected studies – the J. D. Power Survey for the UK market – among a competitive field consisting of all global car brands. In 2004 the Škoda brand took second place in the same study.

Sales and Service

In 2004, despite overall flat markets in Central and Western Europe, Škoda Auto delivered a total of 451,675 vehicles to customers to register growth of 0.4% compared to 2003.

The most significant model in terms of volume was the Fabia, which underwent a number of innovations in conjunction with the new model year. World-wide, the total number of Fabias sold was 247,600 (-5.1%). The Octavia range broke new sales records in 2004. In all, 181,683 Octavias were sold to new owners, a rise of 9.7% on the year previous. Škoda Auto achieved this success thanks in part to the new version of the Škoda Octavia, which created a buzz among customers and journalists alike following its debut in Geneva in March 2004.

Starting in May 2004, the new Škoda Octavia was gradually introduced in European markets. The extraordinary success of this model is demonstrated by the fact that 39,734 customers bought one in the period from May to December.

The prestigious limousine, the Superb, has become an established part of Škoda Auto's range and has rightfully become the brand's flagship. The total number of Superbs delivered to customers in 2004 was 22,392 (-3.2%).

Czech Republic

In the domestic market, which after Germany is the second largest market by volume, a total of 64,676 vehicles (-9.6%) was delivered to customers in the reporting year. This was brought about by an 11% contraction of the market as a whole. The Škoda brand reinforced its position during the year, occupying a market share of 48.5% (2003: 47.7%). This excellent performance was achieved thanks in part to successful sales support measures such as the 'One Year of 0% Financing' initiative.

Central and Eastern Europe

In the sales region of Central Europe (not including the Czech Republic), the number of vehicles sold in 2004 totalled 87,139 (-6.8%). This result was influenced by declining markets; the market of the region as a whole contracted by 5.8% compared to 2003. The contraction was particularly severe in Poland, one of Škoda Auto's key markets, which saw its market decline by 11.3%. Despite this weakness, the Škoda brand managed to increase its market share from 12.0% in 2003 to 12.5% in 2004.

In Hungary, Škoda Auto achieved a record performance in 2004 with sales of 17,350 vehicles (+12.2%). This gave the Škoda brand a market share of 8.2%. Sales growth continued in Romania, where sales reached 7,658 vehicles (+22.6%).

Sales in the countries of Eastern Europe in 2004 totalled 31,564 vehicles (+18.4%). In Russia, 5,429 vehicles (-18.7%) were delivered to customers. The reason for this decline was mainly restructuring of the sales network. Ukraine, one of the three locations where vehicles are assembled, saw vehicle deliveries increased by 69.5% to a total of 9,005 vehicles.

Western Europe

The Škoda brand maintained a stable position in Western Europe in 2004 despite a flat automotive market there. The total number of vehicles sold was 240,672 (+2.0%), and Škoda Auto's market share was 1.7%.

In Germany, which retained its position as the Company's largest export market, 78,051 vehicles (+11.4%) were sold through the authorised dealer network. The market share was 2.4% (2003: 2.2%).

In addition, Škoda Auto made significant sales gains in Spain (16,605 vehicles, +24.6%), Greece (9,202 vehicles, +20.9%), and Denmark (8,362 vehicles, +16.0%).

Overseas and Asia

In the overseas and Asia sales region, there was a 24.2% year-on-year surge in deliveries to 27,624 units. Much of this excellent result can be attributed to sales posted by Škoda Auto in India, where the company reported a 54.7% rise to 7,202 vehicles, and in China, where sales more than doubled to 2,307 vehicles.



The New Octavia

Following a press conference in Athens and dealer conferences in Prague, the new Octavia was launched in the Czech market on 28 May 2004 and in the German market on 5 June 2004. By 31 October 2004 the new vehicle had been launched in all the key European markets. The new Octavia is characterised by innovative design in which great attention has been paid to details; this has seen the car place first in many comparison tests. The success of the new model was also confirmed by unit sales, which reached 39,734 vehicles in 2004.

The New Octavia Combi

The world premiere of the new Octavia Combi took place at the International Motor Show in Paris. The new Škoda Octavia Combi builds on its predecessor of the same name, but at the same time brings progress and improvements in nearly every respect. The new model is an attention grabber, especially because of its 850-litre luggage space that nearly doubles to 1,620 litres when the back seats are folded down. The new vehicle excels with attractive design, spacious and variable interior, high-quality workmanship using valuable materials, and excellent driving characteristics. The automobile was launched in December 2004.

Service Centres

Škoda Auto's goal is to improve quality constantly, not just in its products but also in all the services it provides. To ensure that service centres are capable of effectively increasing the quality of their services, most of all they need good-quality technical facilities and highly qualified personnel. The high level of personnel and technical capacities is ensured by new service standards valid throughout the European Union, including ISO 9001:2000 certification, a system of certified training for all service centre employees, and equipping service centres with cutting-edge repair and diagnostic technologies. The quality of the actual repair work is further supported by a Technical Service Centre whose employees provide consulting services and, in complicated return cases, allow the control unit of a customer's car at a Škoda service centre to be connected over the internet to diagnostic equipment at Škoda Auto.



Vehicle Customer Deliveries by Region

	1999	2000	2001	2002	2003	2004	2004/2003
Czech Republic	75,952	80,882	82,405	74,466	71,522	64,676	-9.6%
Central Europe, excl. Czech Republic	90,749	89,517	92,766	82,549	93,474	87,139	-6.8%
Other Eastern Europe	10,238	13,116	24,167	27,224	26,652	31,564	18.4%
Western Europe	192,156	229,109	244,099	238,323	235,861	240,672	2.0%
Overseas and Asia	16,235	22,779	16,815	22,963	22,249	27,624	24.2%
Total	385,330	435,403	460,252	445,525	449,758	451,675	0.4%

Vehicle Customer Deliveries by Model

	1999	2000	2001	2002	2003	2004	2004/2003
Felicia, total	241,256	148,028	44,963	-	-	-	-
Fabia, total	823	128,872	250,978	264,641	260,988	247,600	-5.1%
Fabia	823	124,064	152,601	150,319	140,305	132,520	-5.5%
Fabia Combi	-	4,808	81,641	81,996	97,157	97,012	-0.1%
Fabia Sedan	-	-	16,732	31,185	22,406	17,036	-24.0%
Fabia Praktik	-	-	4	1,141	1,120	1,032	-7.9%
Octavia total	143,251	158,503	164,134	164,017	165,635	181,683	9.7%
Octavia (Tour)	90,733	96,253	97,679	98,766	97,198	82,259	-15.4%
Octavia Combi (Tour)	52,518	62,250	66,455	65,251	68,437	58,427	-14.6%
New Octavia	-	-	-	-	-	39,734	-
New Octavia Combi	-	-	-	-	-	1,263	-
Superb	-	-	177	16,867	23,135	22,392	-3.2%
Total	385,330	435,403	460,252	445,525	449,758	451,675	0.4%

Vehicle Customer Deliveries in Selected Countries

	1999	2000	2001	2002	2003	2004	2004/2003
Czech Republic	75,952	80,882	82,405	74,466	71,522	64,676	-9.6%
Slovakia	31,451	32,095	37,523	29,175	25,728	23,150	-10.0%
Poland	44,457	39,326	37,354	34,301	42,927	39,693	-7.5%
Hungary	6,807	7,707	8,354	11,507	15,462	17,350	12.2%
Central Europe	166,701	170,399	175,171	157,015	164,996	151,815	-8.0%
Germany	56,270	65,219	66,937	67,656	70,055	78,051	11.4%
France	11,782	12,053	13,727	16,607	14,234	13,013	-8.6%
United Kingdom	23,145	30,509	36,048	38,251	37,103	34,236	-7.7%
Italy	19,698	23,005	28,643	23,051	23,061	20,478	-11.2%
Spain	13,137	14,834	17,118	15,549	13,322	16,605	24.6%
Austria	15,972	19,466	18,880	15,552	16,200	15,601	-3.7%
Denmark	6,632	5,921	6,083	7,068	7,207	8,362	16.0%
Sweden	17,248	18,827	8,853	9,008	8,614	8,763	1.7%
Western Europe	192,156	229,109	244,099	238,323	235,861	240,672	2.0%

Market Share (%)

	1999	2000	2001	2002	2003	2004	2004/2003*
Czech Republic	49.6	52.6	52.6	50.0	47.7	48.5	0.8
Slovakia	53.8	57.2	52.8	44.2	44.2	40.1	-4.1
Poland	6.6	7.9	11.2	11.1	12.0	12.5	0.5
Hungary	4.6	5.3	5.5	6.6	7.3	8.2	0.9
Central Europe	14.4	17.6	20.8	19.1	18.1	17.8	-0.3
Germany	1.5	1.9	2.0	2.1	2.2	2.4	0.2
France	0.5	0.6	0.6	0.8	0.7	0.7	0.0
United Kingdom	1.0	1.3	1.5	1.5	1.4	1.3	-0.1
Italy	0.8	0.9	1.2	1.0	1.0	0.9	-0.1
Spain	0.9	1.1	1.3	1.2	1.0	1.1	0.1
Austria	4.8	6.1	6.4	5.5	5.4	5.0	-0.4
Denmark	4.6	5.3	6.3	6.3	7.4	6.9	-0.5
Sweden	4.8	5.0	3.4	3.5	3.3	3.3	0.0
Western Europe	1.2	1.5	1.6	1.7	1.7	1.7	0.0

* in percentage points

Human Resources

The development of employment during 2004 was influenced by the rapid introduction of the new Octavia with concurrent production of the existing types. The total work force numbered 24,561 at year end, an increase of 7.7%. The growth in human resources was mainly reflected in the number of production employees (+15.9%) and in the flexible utilisation of temporary personnel. At year end, a total of 3,664 temporary employees were working within the Company, an increase of 58.8%. On the other hand, targeted productivity improvements and optimisation of existing work processes led to a reduction in non-production personnel by approximately 2%.

Social Partnership

The collective bargaining process in 2004 was approached by both parties with an awareness of their genuine partnership and the goal of creating an environment of labour conciliation to facilitate the successful launch of the new Octavia and reinforce the Company's competitiveness. The negotiations led to an agreement on wage increases slightly above the expected level of inflation. In addition to the Wage Agreement, the partners also signed an Employment Agreement that deepens the conditions for co-operation between the social partners in the area of employment.

Personnel Development

The products and services of Škoda Auto are supported by personnel development programmes, the principal goal of which is to capture and cultivate talent. Škoda Auto is aware of the potential inherent in university students and graduates, and endeavours to make contact with them and offer them co-operation even during their studies. This practice allows students to get to know the Company's operations and corporate culture before they come on board.

Škoda Auto aims to nurture most of its future managers internally. Talented employees and managers of Škoda Auto are allowed to take part in international projects structure that further improve their flexibility and opportunities throughout the Group.

Education

In September 2004, the Board of Directors approved a plan to build a university campus at the Na Karmeli site. In co-operation with the City of Mladá Boleslav, Škoda Auto will create conditions for the formation of a centre of modern education that will be unique both in the region and in the Czech Republic as a whole. The campus will be home to the Škoda Auto University, a branch of the planned University of Central Bohemia, branches of several technical universities, and part of Škoda Auto Coaching. The approved Škoda Auto capital expenditure for the project is CZK 400 million. The project goal is to meet the Company's future personnel needs and ensure competitiveness based on the building of personnel competencies.

In 2004, Škoda Auto University awarded bachelor's degrees to its first 38 students, 60% of whom found jobs with Škoda Auto. Also, a record number of new students entered the university: 140 were accepted as full-time students and 40 for combined study. Modern teaching methods are in use at the Secondary Vocational School of Mechanical Engineering and at the Vocational School, which form part of the future Education Centre. At present, nearly 1,000 students attend these schools as they prepare for future careers in production positions at Škoda Auto.

Z.E.B.R.A.

The Z.E.B.R.A. system is designed to create conditions to support employee activities focused on all kinds of cost savings, simplification of work processes, and improvements in the quality of the living and work environment. Last year, a total of 3,890 employees, or 19.3% of the work force, became involved in the system by contributing their ideas. A total of 9,963 suggestions were made, and their success rate is 74.2%. Quantifiable benefits totalled CZK 175.1 million.

Health Management

Considerable attention was paid to caring for employee health. Employees were offered a wide range of health programmes focused on primary prevention. One important preventative activity was employee flu immunisation. All told, 22.5% of the total number of Škoda Auto employees and vocational students took advantage of the offer.

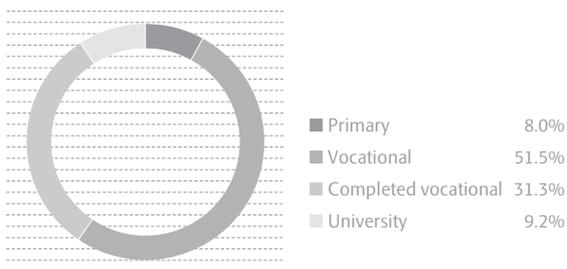
To increase awareness of health care, a 'Health Day' was held in the Mladá Boleslav plant. The range of preventative programmes was expanded to include a Special Programme for management entitled 'Staying in Good Condition on the Road to the EU'.

Work Safety

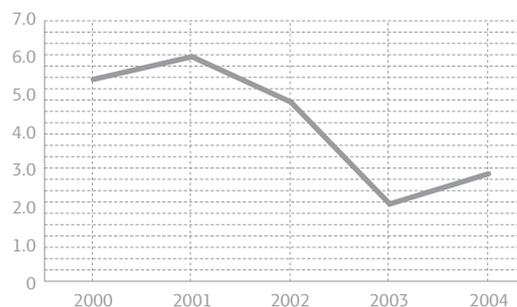
Systematic care to ensure a high level of employee safety and health is at the forefront of Škoda Auto interests and strategy. This strategy is supported by a document valid for all Volkswagen Group plants – the Volkswagen Group Safety Policy. For several years in a row now, the Group has reported one of the absolute lowest injury rates among European and world automobile manufacturers: 2.9 injuries per million hours worked in production.

The sustained sound level of Company performance in workplace safety was confirmed by a reduction in lost hours due to injury compared to 2003. One very positive aspect is that this performance is the result of a long-term, systematic effort by the entire Company with the support of the unions. This effort encompasses effective anti-injury prevention, appropriate motivation through contests and recognition for units with the lowest injury rates and, not least, utilisation of the Group-wide work safety programme 'Selbst Sicher' (Safety with Confidence), which is focused on reducing the number of accidents caused by employee error.

Qualification Structure (%)



Injury Rate Over Time



Organisation and Information Systems

Continuous optimisation of work processes is the cornerstone of Company development. The priority is to create value by eliminating superfluous procedural steps that do not generate value. Therefore, efforts contribute to work efficiency and maximum utilisation of the Company's potential. Škoda Auto possesses a Company-wide process model. In 2004, approximately 170 detailed process models were completed and integrated into the process map. This year also saw the commencement of strategic and methodical measurement of processes as a management tool for process optimising.

Information Technologies

At Škoda Auto, the term 'IT' means more than just information technologies; it is understood in an expanded sense as 'Integration Technologies'.

In accordance with the Group IT strategy, Škoda Auto is developing specific competencies and is also providing services to other Group companies. The establishment of a Shared Competence Centre and a Shared Service Centre will lead to the generation and utilisation of synergy potential among all Group companies. Current activities are focusing on Central Europe and Škoda Auto subsidiaries such as Škoda Auto India.

'Simply Clever'

In 2004, IT teams together with partner units of Škoda Auto took on the Group challenge of providing state-of-the-art cost-effective solutions intended to support enterprise processes.

IT – Operations and Security

In the context of improving information and communication technology services provided to end customers, emphasis is placed on both system and process integration according to the international ITIL (IT Infrastructure Library) methodology. Work commenced on rolling out Change Management and Service-Level-Management.

Information protection became an integral part of Škoda Auto's Company policy in 2004. Based on a risk analysis and regular effectiveness evaluations, new technical and organisational measures are taken to increase the security level of information and information technologies in accordance with international standards.



System Support of Product Development Processes

The technology base for computer simulations of crash tests underwent major upgrading. The installation and start-up of an SGI cluster solution with 96 processors and a disk capacity of 12 terabytes gave Technical Development a high-performance tool allowing it to carry out a far greater number of numeric-intensive simulations. This will ultimately increase the safety of persons driving in Škoda vehicles.

System Support of Order and Production Processes

In conjunction with preparations for the production of the new Octavia, the IT area embarked on an extensive upgrade of data networks and end-user equipment in vehicle production and quality systems. In addition to bringing all systems into compliance with new production demands, new functions were added to the control system: visualisation of assembly lines in real time, controlled preparation of 'Warenkorbs' (shopping baskets) and monitoring of critical parts.

2004 saw the completion of another phase in the Group-wide standardisation of logistical process support systems. The existing warehouse management system was successfully replaced by the Group's standard system in all production plants.

In 2004, through widespread use of state-of-the-art WEB technologies and compliance with security standards in general – and use of client certificates in particular – the Company created a homogeneous IT platform based on IBM technologies. One of the applications this platform runs is OVEx2 – a solution for ordering and configuration regarding new cars, which features an integrated car configurator and a warehoused vehicle exchange. These systems will be used in the dealer network not just in the Czech and Slovak Republics, but in other regions as well.

Customer Communication Over the Internet

In 2004, the Company implemented further projects focused on encouraging interactive communication between Škoda Auto and customers. The most important activities in this respect included a redesign of the Company websites www.skoda-auto.com and www.skoda-auto.cz.

To ensure that communication and information on Škoda cars is aligned in all world markets, standard web presentations were created for individual Škoda models, which are available in many versions. Using a Content Management Server (CMS) system, a tool was created for the development, editing and administration of importer websites, giving customers and other interested parties a source of up-to-date information.

Sponsorship

Sponsorship is an important and reliable communication tool for Škoda Auto. It helps the Company reinforce its image, build brand recognition, and reach target customer groups. To this end, great use is made of co-operation with importers all over the world, and Škoda Auto establishes itself in the fields of sport, culture, and other social activities.

One of the pillars of the Company's sponsorship strategy is top-flight ice hockey – since 1993, Škoda Auto has been the lead sponsor of the fastest-paced team sport. Every year, the logo in the centre circle, cars displayed near the rink within reach of TV cameras, the official car fleet, and other advertising instruments ensure the Company has a high degree of TV exposure every year. In ice hockey, the Company has a long-term relationship both with the national team and the Czech Ice Hockey Extraliga. The latest championships held in the Czech cities of Prague and Ostrava boasted the highest stadium attendances and TV ratings ever in the history of these championships.

In 2004, the Škoda Auto's sports sponsorship policy earned it the status of partner of the Tour de France, a popular cycling race that, in terms of spectators and viewers, is one of the top three sporting events in the world. Škoda Auto became one of the four Tour's general partners, the official vehicle of the event, and the sponsor of the White Jersey awarded to the best Tour de France junior racer. Škoda Auto expects this investment to develop and reinforce its position on the highly competitive European markets. The spectators and television viewers throughout the world give the Company immense potential to deliver a presentation corresponding precisely to Škoda Auto ambitions.

Every year, the individual stages attract around 15 million spectators to the roadside and the crowds line the route of the Tour from the start all the way to the finish. About two billion viewers in more than 170 countries watch the world's most famous multi-stage bicycle race.

Škoda brand could be seen everywhere. Advertising hoardings were visible throughout the routes of the individual stages. The back straight was interwoven with several advertising banners in a row which were positioned perfectly for the television cameras, and at the official announcement of the winners the Škoda logo stood out on the sponsorship panel. The perfect campaign was accompanied by official cars with the winged arrow in their logo, of which there were more than 200 at the Tour. They proved their worth as escort vehicles for the race management, and profiled well in a motorcade presenting the Company and its products as it went round the stage routes ahead of the field of racers.

For the Company, the association with the legendary Tour also has an element of nostalgia, since the manufacture of bicycles was the foundation of what is now the most important Czech industrial enterprise. Ice hockey and cycling in the form of these sports' top championships will also be a good combination in terms of covering our core markets.



The ever increasing popularity of golf has given Škoda Auto the impulse to remain a partner of this green sport. For the second year running, Škoda Auto also tried out the field of extreme sports and, following last year's experience, continued its partnership with the Dolomitenman competition, which is considered an unofficial European championship of extreme sports.

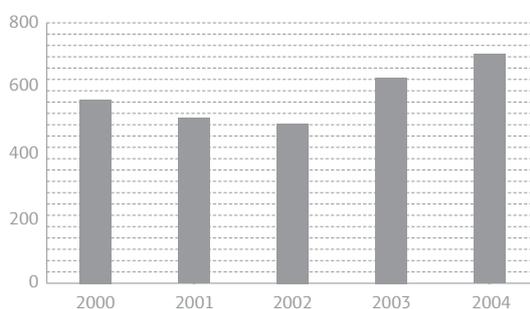
Škoda Auto views its sponsorship of culture and the arts as a way of paying its dues to society and as a way of presenting itself in the context of world-renowned artistic groups and cultural events. The most significant partnerships in this area include those with the National Theatre and the Czech Philharmonic, whose fame extends far beyond the borders of the Czech Republic. The continued sponsorship of the Zlín Film Festival for children and youth, which is making great strides every year, helps Škoda Auto to build brand name recognition

among the youngest population groups that form its future base of potential customers.

Another important part of the Company's activities in the support of society are social-and-charity projects, the most important of which are the partnership with Centrum Paraple (Paraplegic Centre), which helps handicapped citizens lead full and meaningful lives, and the Healthcare Clown project, which livens up young children's stays in hospitals. Starting with the 2000–2004 Olympic cycle, Škoda Auto became an official partner of the Czech Paralympic team, and it also provided Škoda cars to the team's members.

Škoda Auto also provides support to its local region. Therefore, the winged arrow logo decorates the kits of players from local ice hockey and football teams.

Ice Hockey World Championship Rating
(millions of viewers)



Society and Infrastructure Development

In September 2004 the Board of Directors approved a plan to build a training centre at Na Karmeli in Mladá Boleslav. This project is the result of Škoda Auto's efforts to guarantee the Company the pool of human resources it will need in the future and to implement a strategy to improve Company competitiveness by fostering employee skills. Project realisation will put in place the conditions required for the rise of a centre devoted to modern training, unique not only in the region, but in the whole of the Czech Republic.

One of the key impacts of the project is that it will revitalise the historic city centre and protect cultural monuments, such as the Church of St Bonaventura and the Piarist monastery. The complex will be a focal point of educational and cultural projects in the region, and the city of Mladá Boleslav, which is the project's main partner, will be viewed by young people and families as a more attractive place offering good prospects.

The training centre will work very closely with colleges of higher education, providing lifelong learning to Company employees and the general public. It will also be the site of the Škoda Auto University, a branch of the George of Poděbrady University (the new university being planned in Central Bohemia), and will house branches of top Czech technical colleges and part of the Škoda Auto Coaching centre. The specialised, multipurpose classrooms, multimedia centres, modern lecture halls, and special project and technical laboratories will be able to accommodate more than 1,500 students and Škoda Auto employees. They will be offered courses in economic and technical subjects, and in specific managerial and executive professional skills. Given the close bonds planned with the business community, the complex should become a centre nurturing and disseminating know-how and innovations related to fields in the automotive industry.

Work on constructing the complex will begin in mid-2005, with plans to start teaching in autumn 2006. The funding approved by Škoda Auto for this investment is almost CZK 400 million, and the project will also benefit from contributions made by Mladá Boleslav and other partners.

Škoda Auto follows the example set by the Volkswagen Group as a supporter of social responsibility. The construction of the training complex at Na Karmeli is just the first step on the way to creating an AutoVision project in Mladá Boleslav.

The policy of fostering a close partnership in regional development between Škoda Auto and Mladá Boleslav is set to continue with a project called Innovation Campus, which will create the conditions required to set up companies offering innovative potential. This will boost the development of the business sector and eventually will support the diversification of industry in the region. By working closely with universities and colleges in the complex, and by co-operating with Škoda Auto's development centre, the Innovation Campus should have a fundamental influence on research, development, the spread of innovations, and competence building in key fields.

The Environment

In accordance with its Company policy, Škoda Auto carried out all aspects of its strategy of sustained improvement in environmental protection in 2004. This was demonstrated by the conclusion of the audit of the Company's integrated management system, which renewed the Company's international ISO 14001 environmental management system (EMS) certificate for another three years. Commensurate measures taken by the Company to protect the environment go beyond the statutory framework and are a guarantee of the Company's future development, as well as leading contractual suppliers and dealers to take an environmentally sensitive approach.

In 2004 the consolidated environmental protection process was influenced primarily by further changes in legislation, the start-up of production of the new Octavia, ongoing integration of environmental and quality management systems, and the Company's development plans. Škoda Auto's environmental achievements in 2004 included, for example, the following:

- playing a major role in the preparation of legislative amendments in the clean air area and implementation of the European Union directive on car wrecks in the conditions of the Czech Republic;
- operating a modern paint shop in Kvasiny in accordance with an integrated license. For the similar, albeit larger, facility in Mladá Boleslav it applied the same principles even though the Regional Office has not yet concluded proceedings on obtaining an integrated license;
- utilising an environmental information system to gather, store, sort, and present environmental data both for the Company's own use and to provide information to state government bodies;
- undergoing an Environmental Impact Assessment in order to further expand production facilities at the Kvasiny plant - to be completed next year.



Although protecting the environment is a costly proposition, it is necessary to ensure the future. In 2004, Škoda Auto invested CZK 169 million directly into environmental protection. These funds went in particular on equipping and upgrading foundry facilities, building environmentally-friendly buildings and equipment for handling hazardous materials and on video-camera inspection, cleaning, and reconstruction of the sewer networks in the Mladá Boleslav and Vrchlabí plants.

Air protection, minimisation of waste, recycling and re-use, water and soil protection, energy and water conservation, an environmental management system, and the co-operation of all involved – all of the above helped Škoda Auto to meet all environmental protection limits in 2004. Indeed, in many cases our values were well within the statutory limits and the Company continued the established trend of reducing the environmental impact of its operations. That is clear proof of how serious Škoda Auto is about its responsibility for sustainable development and taking a sensitive approach to life and nature, i.e. the fundamental principles declared in the Škoda Auto Company Policy.

Škoda Auto Environmental Investments, 1991-2004

Wastewater treatment	CZK 775 million
Paintshop measures and new paintshops	CZK 1,566 million
Clean air, energy	CZK 5,605 million
Building insulation	CZK 296 million
Protection of soil and groundwater	CZK 470 million
Protection of work environment	CZK 249 million
Total	CZK 8,961 million

Outlook

The Czech Economy

Inflation is expected to fall moderately in 2005 – back to below 3%. Factors important for the development of inflation will include world oil prices, and the Czech Koruna's strength against the Euro and the US Dollar should have a favourable impact.

In light of the recent favourable performance of the domestic economy, Gross Domestic Product (GDP) is expected to grow in 2005, driven mainly by capital expenditures. Recovery of the global and, more importantly, the European economy and stronger external demand will lead domestic companies to increase their production capacities. On the other hand, the current low level of real wage growth is considered a factor limiting household spending.

Principal Strategic Goals

In many respects, 2005 will be a unique year for Škoda Auto. For example, it will mark exactly 100 years since the Company's founders manufactured their first automobile. It will also be a period of consolidation for the new Octavia in the market. The year will also see the market launch of the new Octavia Combi in several key markets.

The new models build on the well-appreciated values of their predecessor and of the Company's other model lines – a favourable ratio of price to utility value while maintaining high standards of quality.

To this end, Škoda Auto will continually reinforce its positions in the markets based on individually adapted sales strategies. Important markets in Europe and Asia will be developed further. In our core regions of Central and Western Europe the Company will focus primarily on further improvements in the quality of our distribution, sales, and service. Another goal is to accelerate the process of establishing the brand in promising markets of Eastern Europe and Asia.

In the medium term, Škoda Auto will continue to offer cars that fall into the small-car segment, the lower mid-range, and mid-range. These are the Company's principal strategies for meeting its demanding profitability targets.

The Automotive Market and Sales in the Medium Term

Flat performance will continue in 2005 in most Western European markets. Weak growth in demand for motor vehicles is expected primarily in the continent's biggest automotive market, Germany. In Central Europe, the markets are expected to recover somewhat, especially in the Czech Republic and Poland, which declined the most in 2004.

We will continue to sell the successfully introduced new Octavia – which filled out the vehicle palette in the lower mid-range – alongside the Octavia Tour.

In 2005 and in the medium term, we expect to see a steady increase in sales, thanks primarily to the Škoda brand's new attractive models as well as to penetration of new markets such as, for example, China.

Production

In terms of car and other component production, 2005 will primarily be a period for the consolidation and optimisation of production processes in all model lines currently in production, with an emphasis on the new Octavia after the production start-up phase completed in late 2004 or early 2005.

One of Škoda Auto's plans for the future is to expand the Company's presence in foreign markets (India, Ukraine, Bosnia and Herzegovina, China). To secure the preparation and shipping of vehicles for these destinations, a new Vehicle Assemblies Centre will be built in the Mladá Boleslav plant.

Investment Strategy

In 2005 and later years, the bulk of the Company's capital expenditures will be focused on phasing out the first generation Fabia.

Money invested in education is money well spent. Škoda Auto is fully aware of this fact and therefore it decided in 2005 to lay the cornerstone of a modern university campus right in Mladá Boleslav. Completion of construction is planned for 2006.

In the medium term, the Company envisions further investments in development and revamping of both existing and new models (such as the successor to the Superb) and in infrastructure development.

Škoda Auto plans to build a new technical and development centre which will serve as a base for developing new vehicle models and components not only for the Škoda brand, but for other Volkswagen Group brands as well.

Financial Outlook

In 2005 as well as in the medium term, the Company intends to meet its strategic sales targets, both by developing existing markets and by opening new ones, as well as by expanding its product range. That, together with ongoing optimisation measures, will contribute to further reinforcing the Company's financial situation. The principal strategic goal in the area of finance is continuous growth in earnings results, return on capital, and net liquidity.

In October 2005, the Company plans to repay CZK 5 billion of its outstanding bonds. Because of this, the Company expects to see continued improvement in the Company's financing situation. The Company expects to record an improvement in all key financial indicators in 2005, assuming general economic conditions do not deteriorate substantially.

In 2005, Škoda Auto will begin issuing financial statements according to International Financial Reporting Standards (IFRS).

Marketing Strategy

The principal marketing goal of Škoda Auto in 2005 is to successfully introduce the new Octavia Combi along with the Octavia Combi 4x4.

Another important marketing goal is to establish the Škoda brand as an attractive and desirable vehicle brand with an advantageous ratio between cost and utility value. This is in line with the goal of improving brand recognition and brand image. In order to reach this goal, the marketing strategy will focus on positioning the brand as family-orientated.

Communication will also be focused on new target groups, placing an emphasis on those values of our products that appeal to younger customers and women. These efforts are designed to lead to an experience unmistakably connected with the Škoda brand and a high degree of emotional value.

Sponsorship of selected sporting events such as the Ice Hockey World Championship, the Tour de France, and participation in the FIA World Rally Championship series will go ahead with the aim of increasing brand recognition.

Goals in Human Resources

Škoda Auto was named 'Employer of the Year 2004' in the Czech Republic. The goal of personnel development is to defend the leading position and make our employment conditions and motivational climate even more attractive. For Škoda Auto, the investments in the new university campus, including an innovation centre, and a location for the "Job Families" training centre are all designed to foster key competencies in Mladá Boleslav, and are a guarantee of future expertise and management talent.

100 Years of Automobile Production

2005 is a jubilee year several times over for Škoda Auto – it will mark the 110th anniversary of the Company’s establishment, 100 years of automobile production, 80 years of the production of Škoda-brand cars, and 10 years of operation of the museum that was opened on the Company’s 100th jubilee. Only a handful of today’s automotive manufacturers began making cars before 1905, and even fewer were established prior to 1895.



In 1895, two Václavs met in Mladá Boleslav – the bookseller, Václav Klement, and the technician, Václav Laurin. When they began to manufacture and repair bicycles in early December 1895, the firm ‘Laurin & Klement’ was born. Just a few years later, the firm’s owners decided to add a small motor to the bicycle, but they did not use an ordinary bicycle frame. Instead, they used a specially designed frame – a step that was well-received, among others, by Allgemeine Automobil-Zeitung: to the motor they attached a frame, but compared to the ordinary bicycle frame this one had been adapted. These were the first motorcycles in the Austro-Hungarian Empire. The Company went on to chalk up many sporting achievements with these vehicles. First in 1901–02 on the Paris – Berlin and Paris – Vienna races, and subsequently (and especially) on the Dourdan Racetrack near Paris in 1905, when Václav Vondřich won the Coupé International – the largest motorcycle race of its time, the unofficial world championship.

As early as 1901, the factory’s engineers attempted to put together a vehicle with four wheels, but it resembled two motorcycles hooked together more than a real automobile. The Company’s first car was the Voiturette A, manufactured in 1905. In this year only a few of these ‘Little Cars’ were assembled. At the Prague Motor Show that year, however, the firm exhibited only the engines. The grand unveiling of the Company’s first automobile was to take place in Prague one year later.

In 1905, the Company produced its last bicycles. It continued to make motorcycles for another five or six years, but from the beginning the enterprise focused fully on manufacturing automobiles. It grew by leaps and bounds and new capital was generated in 1907 when the Company went public. Václav Klement became the General Manager and Václav Laurin was named Technical Director. As the Company grew, it naturally began to develop export markets. Cars were exported to such exotic countries as Japan and New Zealand, and the Company had five offices in Russia as well.

Growth continued apace until it was cut short by World War I, when the production of cars was phased out in favour of lorries, engines for surveillance balloons, and grenades. The disintegration of the Austro-Hungarian Empire and the creation of an independent Czechoslovak State meant the loss of what had been, until then, 'domestic' markets, now suddenly on the other side of an international border and subject to customs duties. Laurin and Klement began searching for a strategic partner who could finance a major revamp of the factory, which had been run down by war-time production. When their situation was made all the worse by a large fire in 1924, it was clear that a merger could not be postponed any longer.

At that time, the Plzeň-based Škoda machinery plant was looking for a new product line. After the war, Škoda, the 'largest weapons factory in the Empire' and a well-known producer of ships and turbines, was on the look-out for new avenues of growth and product lines to replace war-time products that were no longer needed. The factory's owners – the Škoda family – left the firm in 1919 and it was taken over by the famous French industrial company Schneider. In 1925, the paths of these two factories crossed. On one side stood 'Laurin & Klement, Automobile Factory in Mladá Boleslav' and, on the other side, the 'Joint-stock Company, formerly the Škoda Works in Plzeň'. The merger was approved by the boards of both companies in the summer of 1925, and over the next half-year the Company was reorganised. Since then, the factory in Mladá Boleslav has been producing automobiles under the Škoda brand bearing the winged arrow logo. In addition to finding a strong partner, the merger allowed the factory to take advantage of an existing structure of offices abroad and to penetrate new markets. From 1925 to 1929, the automobile factory in

Mladá Boleslav operated as part of the Plzeň Works, and as of 1 January 1930 it became a subsidiary of Škoda Works, with the name ASAP (an abbreviation signifying 'Joint-stock Company for the Automotive Industry').

This structure remained in place until both companies were nationalised in 1945, following the period 1939–45 when the entire Škoda group of companies was part of RWHG (Reichswerke Hermann Göring). Since the end of 1945, there has been no real link between the Plzeň Works and the automobile factory in Mladá Boleslav other than the logo and brand name. The automobile factory was restructured and it began to operate under the name AZNP (signifying 'Automotive Works, National Enterprise'). It was at this time that the branch plants in Vrchlábi and Kvasiny were first affiliated with the parent plant in Mladá Boleslav. In the period that followed, the enterprise managed to keep pace with technical trends. One surprise was the Škoda 1000 MB, with its engine in the rear, which was manufactured in the years 1964–69 and was well received and accepted even abroad, for example in the Federal Republic of Germany. An enormous upgrade of the plant in the early 1960s, doubling its size, was unfortunately the last upgrade for a long time. This caused the enterprise to fall behind and lose its competitive edge.

New blood was not to enter the factory's veins until the Favorit (1987–95), a successful car that was designed by the Italian N. Bertone. Following the political changes of late 1989, both the country as a whole and the Škoda car factory began to feel the need for a change in economic focus. The Favorit and the factory upgrade that took place in the mid-1980s were advantages that helped the factory quickly find a strategic partner. From among many bidders for the enterprise, the Volkswagen Group won the tender. This new chapter in the Company's history dates from 16 April 1991.

In the Company's 100th anniversary year (1995), a new Company museum was opened that also serves as a centre hosting cultural and social events. One interesting fact about the museum is its location – in the original space that housed the Laurin & Klement factory from the beginning of the 20th century.



Growth of the Škoda Brand

Year	Area (m ²)	Number of Employees
1895 – establishment of the company	120	7
1903 – manufacture of bicycles and motorcycles	3,000	204
1905 – launch of automobile production	8,000	355
1907 – foundation of the joint stock company	13,400	600
1920 – post-war situation	58,000	1,470
1925 – L&K car factory merges with the Škoda machine works	60,000	1,800
1930 – modernization and new conveyor line	215,700	4,250
1964 – expansion and launch of the Š 1000 MB	800,000	13,000
1991 – merger with VW Group	2,458,000	16,687*
2000	2,957,300	27,170*
of which: Škoda Auto Parts Centre	storage area 44,000	415
2004	3,024,400	25,225*
of which: Škoda Auto India	33,100	304
Škoda Auto Parts Center expansion	storage area 65,000	477

* Number of employees as at 31 December, incl. temporary employees and subsidiaries.

Auditor's Report

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Report on Relations

Preparation of the Annual
Report and Post-Balance
Sheet Events

Business Results
in Review

Financial Section

Auditor's Report

PricewaterhouseCoopers Audit, s.r.o.

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

We have audited the accompanying balance sheet of ŠKODA AUTO a.s. ("the Company") as at 31 December 2004, the related income statement, cash flow statement and notes for the year then ended presented in the annual report of the Company on pages 58 – 83 ("the financial statements"). The financial statements, which include description of the activities of the Company, 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 and the International Standards on Auditing. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to 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 2004, and the results of its operations and its cash flows for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 9 – 55 and 88 – 92, which does not form part of the financial statements for the year ended 31 December 2004, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party VOLKSWAGEN AG and between the Company and the other parties controlled by VOLKSWAGEN AG on pages 84 – 87 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

14 February 2005



PricewaterhouseCoopers Audit, s.r.o.
represented by



Matthew Pottle
Partner



Pavel Kulhavý
Auditor, Licence No. 1538

Balance Sheet – Unabridged Version as at December 31

(in thousand CZK)

ASSETS		2004			2003	2002
		Gross	Provision	Net	Net	Net
a	b	1	2	3	4	5
	TOTAL ASSETS	143,548,099	(71,711,534)	71,836,565	66,151,292	66,818,348
B.	Fixed assets	111,506,633	(70,363,777)	41,142,856	44,073,915	44,873,430
B.I.	Intangible fixed assets	3,432,094	(1,689,379)	1,742,715	1,647,669	891,864
B.I.1.	Research and development	630,929	(630,929)		9,490	25,759
B.I.2.	Software	925,067	(756,502)	168,565	134,317	184,232
B.I.3.	Royalties	1,759,108	(282,470)	1,476,638	44,068	52,474
B.I.4.	Other intangible fixed assets	54,973	(19,478)	35,495	29,572	18,711
B.I.5.	Intangible assets in the course of construction	62,017		62,017	1,430,222	
B.I.6.	Advances paid for intangible assets					610,688
B.II.	Tangible fixed assets	107,006,286	(68,585,304)	38,420,982	41,745,707	43,322,436
B.II.1.	Land	966,870		966,870	957,121	956,763
B.II.2.	Constructions	20,998,200	(5,422,455)	15,575,745	14,958,238	14,676,024
B.II.3.	Equipment	82,070,852	(63,162,849)	18,908,003	18,245,157	22,953,599
B.II.4.	Other tangible fixed assets	26,555		26,555	25,338	36,624
B.II.5.	Tangible assets in the course of construction	2,401,486		2,401,486	6,555,624	4,171,975
B.II.6.	Advances paid for tangible fixed assets	542,323		542,323	1,004,229	527,451
B.III.	Long-term investments	1,068,253	(89,094)	979,159	680,539	659,130
B.III.1.	Investments in controlled entities/subsidiaries	467,715	(49,094)	418,621	478,622	460,675
B.III.2.	Investments in associates	3,498		3,498	3,498	3,498
B.III.3.	Other long-term investments in securities	24,237		24,237	25,977	39,477
B.III.4.	Other financial investments	230,922	(40,000)	190,922	172,442	155,480
B.III.5.	Long-term investments in progress	341,881		341,881		
C.	Current assets	31,923,610	(1,347,757)	30,575,853	21,944,370	21,631,966
C.I.	Inventories	8,721,247	(332,494)	8,388,753	7,080,766	7,657,486
C.I.1.	Raw materials	3,342,904	(195,484)	3,147,420	2,867,120	2,889,234
C.I.2.	Work in progress and semi-finished products	1,938,000	(2,179)	1,935,821	1,444,630	1,576,516
C.I.3.	Finished goods	1,752,366	(104,817)	1,647,549	1,171,769	1,700,252
C.I.4.	Goods for resale	1,687,977	(30,014)	1,657,963	1,597,247	1,491,484
C.II.	Long-term receivables	1,035,877	(65,958)	969,919	1,045,902	977,863
C.II.1.	Trade receivables	65,958	(65,958)			
C.II.2.	Deferred tax asset	969,919		969,919	1,045,902	977,863
C.III.	Short-term receivables	17,632,791	(949,305)	16,683,486	11,323,023	12,656,505
C.III.1.	Trade receivables	5,936,977	(686,676)	5,250,301	6,484,091	8,786,446
C.III.2.	Intragroup receivables	7,600,000		7,600,000		
C.III.3.	Taxes and state subsidies receivable	2,055,415		2,055,415	4,129,531	3,512,138
C.III.4.	Anticipated assets	6,595		6,595	27,618	42,019
C.III.5.	Other receivables	2,033,804	(262,629)	1,771,175	681,783	315,902
C.IV.	Financial assets	4,533,695		4,533,695	2,494,679	340,112
C.IV.1.	Cash in hand	2,218		2,218	3,545	3,296
C.IV.2.	Cash at bank	4,531,477		4,531,477	2,491,134	336,816
D.I.	Accruals and deferrals	117,856		117,856	133,007	312,952
D.I.1.	Prepaid expenses	25,944		25,944	32,673	135,894
D.I.2.	Complex prepaid expenses	91,912		91,912	100,334	177,058

LIABILITIES AND EQUITY		2004	2003	2002
a	b	6	7	8
TOTAL LIABILITIES AND EQUITY		71,836,565	66,151,292	66,818,348
A.	Equity	32,843,757	31,757,930	29,816,971
A.I.	Share capital	16,708,850	16,708,850	16,708,850
A.I.1.	Share capital	16,708,850	16,708,850	16,708,850
A.II.	Capital contributions	1,904,663	1,265,406	802,212
A.II.1.	Share premium	1,578,172	1,578,172	1,578,172
A.II.2.	Assets and liabilities revaluation	326,491	(312,766)	(775,960)
A.III.	Reserve funds, non-distributable reserves and other reserves	748,784	674,895	583,638
A.III.1.	Statutory reserve fund, non-distributable reserves	748,784	674,895	583,638
A.IV.	Retained earnings	9,984,890	11,631,014	9,897,130
A.IV.1.	Retained profits	9,984,890	11,631,014	9,897,130
A.V.	Profit (loss) for the current period	3,496,570	1,477,765	1,825,141
B.	Liabilities	38,976,769	34,387,519	36,998,736
B.I.	Provisions	6,522,050	5,107,918	4,397,973
B.I.1.	Tax-deductible provisions	296,245	172,806	157,036
B.I.2.	Income tax provisions	733,094	280,079	247,273
B.I.3.	Other provisions	5,492,711	4,655,033	3,993,664
B.II.	Long-term liabilities	5,000,000	10,000,000	10,000,000
B.II.1.	Debentures and bonds issued	5,000,000	10,000,000	10,000,000
B.III.	Short-term liabilities	27,454,719	19,279,601	17,600,763
B.III.1.	Trade payables	15,863,954	12,935,972	11,387,920
B.III.2.	Liabilities to employees	363,724	342,900	326,070
B.III.3.	Liabilities for social security and health insurance	220,590	204,643	193,413
B.III.4.	Taxes and state subsidies payable	66,623	61,743	55,872
B.III.5.	Debentures and bonds issued	5,000,000		
B.III.6.	Anticipated liabilities	5,599,886	5,025,171	4,676,127
B.III.7.	Other payables	339,942	709,172	961,361
B.IV.	Bank loans & overdrafts			5,000,000
B.IV.1.	Short-term bank loans and overdrafts			5,000,000
C.I.	Accruals and deferrals	16,039	5,843	2,641
C.I.1.	Deferred revenue	16,039	5,843	2,641

Income Statement – Unabridged Version for the Period ended December 31

(in thousand CZK)

		2004	2003	2002
a	b	1	2	3
I.	Sales of goods	10,030,504	9,127,204	8,568,724
A.	Cost of goods sold	4,842,519	4,609,590	4,349,789
+	Gross profit	5,187,985	4,517,614	4,218,935
II.	Sales of production	146,012,370	137,599,020	138,964,453
II.1.	Sales of own products and services	143,519,832	136,069,931	137,124,802
II.2.	Change in inventory of finished goods and work in progress	1,045,069	(686,295)	63,422
II.3.	Own work capitalised	1,447,469	2,215,384	1,776,229
B.	Cost of sales	126,316,852	118,773,787	121,127,247
B.1.	Raw materials and consumables	110,540,175	103,673,819	105,518,478
B.2.	Services	15,776,677	15,099,968	15,608,769
+	Added value	24,883,503	23,342,847	22,056,141
C.	Staff costs	8,499,800	8,059,673	7,833,945
C.1.	Wages and salaries	6,242,064	5,883,163	5,761,417
C.2.	Emoluments of board members	559	457	435
C.3.	Social security costs	2,145,568	2,054,787	1,963,275
C.4.	Other social costs	111,609	121,266	108,818
D.	Taxes and charges	46,326	32,446	33,344
E.	Depreciation of long-term assets	10,605,765	10,296,279	10,826,268
III.	Sale of long-term assets and raw materials	1,710,361	1,686,446	1,707,832
III.1.	Sale of long-term assets	695,782	753,921	760,458
III.2.	Sale of raw materials	1,014,579	932,525	947,374
F.	Net book amount of long-term assets and raw materials sold	1,070,008	1,174,338	1,379,677
F.1.	Net book amount of long-term assets sold	563,875	621,830	683,483
F.2.	Net book amount of raw materials sold	506,133	552,508	696,194
G.	Increase/(decrease) in operating provision and complex prepaid	1,061,695	955,138	452,690
IV.	Other operating income	1,252,237	1,772,372	1,269,349
H.	Other operating charges	706,755	1,074,907	830,657
*	Operating result	5,855,752	5,208,884	3,676,741
VII.	Income from long-term investments	28,816	25,973	22,494
VII.1.	Income from investments in controlled entities/subsidiaries and associates	28,816	25,973	22,494
M.	Increase/(decrease) in financial provisions			20,950
X.	Interest income	303,343	76,782	153,604
N.	Interest expense	675,931	1,007,617	1,193,986
XI.	Other financial income	2,271,171	1,634,969	3,562,613
O.	Other financial expense	2,967,883	3,422,600	3,711,743
*	Financial result	(1,040,484)	(2,692,493)	(1,187,968)
Q.	Tax on profit or loss on ordinary activities	1,318,698	1,038,626	663,632
Q.1.	– current	1,482,244	1,209,158	801,259
O.2.	– deferred	(163,546)	(170,532)	(137,627)
**	Profit or loss on ordinary activities after taxation	3,496,570	1,477,765	1,825,141
***	Net profit (loss) for the financial period	3,496,570	1,477,765	1,825,141
	Profit or loss before taxation	4,815,268	2,516,391	2,488,773

Cash Flow Statement

(in thousand CZK)

	2004	2003	2002
Cash and cash equivalents at the beginning of the year	2,494,679	340,112	1,201,505
Profit on ordinary activities before tax	4,815,268	2,516,391	2,488,773
Adjustments for non-cash movements	11,872,081	12,307,085	12,103,503
Depreciation of fixed assets	10,605,765	10,296,279	10,826,268
Change in provisions	1,054,451	1,238,035	336,322
Profit from disposal of fixed assets	(131,907)	(132,091)	(76,975)
Dividend income	(28,816)	(25,973)	(22,494)
Net interest expense and income	372,588	930,835	1,040,382
Net cash flow from operating activities before tax, changes in working capital and extraordinary items	16,687,349	14,823,476	14,592,276
Working capital changes	7,078,029	3,006,122	(3,409,865)
Change in receivables and prepayments	3,753,252	1,446,247	(207,050)
Change in short-term payables and accruals	4,686,756	1,074,087	(3,044,933)
Change in inventories	(1,361,979)	485,788	(157,882)
Net cash flow from ordinary activities before tax and extraordinary items	23,765,378	17,829,598	11,182,411
Interest paid	(668,392)	(1,054,315)	(1,316,160)
Interest received	303,343	76,782	183,512
Corporate income tax on ordinary activities paid	(1,029,229)	(1,176,352)	(680,045)
Dividends received	28,816	25,973	22,494
Net cash flow from operating activities	22,399,916	15,701,686	9,392,212
Acquisition of fixed assets	(9,388,202)	(9,279,878)	(13,999,895)
Proceeds from the sale of fixed assets	695,782	753,921	760,458
Loans to related parties and employees	(8,618,480)	(21,162)	(14,168)
Net cash flow from investing activities	(17,310,900)	(8,547,119)	(13,253,605)
Change in bank credits		(5,000,000)	3,000,000
Changes in equity (dividends paid)	(3,050,000)		
Net cash flow from financing activities	(3,050,000)	(5,000,000)	3,000,000
Net movement in cash and cash equivalents	2,039,016	2,154,567	(861,393)
Cash and cash equivalents at the end of the year	4,533,695	2,494,679	340,112

The Company has prepared a cash flow statement following the indirect method, acquisition of fixed assets the brutto method.

Notes to Financial Statements 2004

1. Information about the accounting policies used, general accounting principles, and the methods of valuation and depreciation

a) Basic accounting principles

The annual financial statements of ŠKODA AUTO a.s., a joint-stock company, as at 31 December 2004 (hereinafter referred to either as "the Company" or "Škoda Auto") have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic.

Unless stated otherwise, amounts disclosed in the financial statements and in the Notes are given in thousands of Czech crowns.

b) Intangible fixed assets

Intangible assets purchased are recorded at acquisition costs minus accumulated depreciation. Research and development costs relating to projects of Škoda models and other products of the Company are expensed as incurred. The right to use Volkswagen Group tooling for new platforms is capitalised as part of intangible assets.

The Company applies straight-line amortisation over the estimated useful lives of the intangible fixed assets:

Development expenditures	5 years
Software	3 years
Valuable rights (royalties)	8 years
Other intangible fixed assets	5 years

Intangible assets with acquisition costs that are less than CZK 60 thousand are charged directly to the profit and loss account as an expense upon consumption.

If the net book value of an asset exceeds its estimated recoverable amount, a provision is created against the asset.

c) Tangible fixed assets

Tangible fixed assets are valued at acquisition costs or own manufacturing costs. Own manufacturing costs of tangible fixed assets include direct material, direct wages and production overheads, as well as proportionate administration costs if the construction of the asset is of a long-term nature (exceeds period of 1 year).

Tangible fixed assets are depreciated on a straight-line basis by the Company, the depreciation rates are based on the estimated useful economic lives of the assets. The useful lives are as follows:

Buildings and constructions	16–50 years
Plant, machinery and equipment (incl. special tools)	2–14 years
Office and other production equipment, furniture and fittings	5–8 years

Tangible assets with acquisition cost that are less than CZK 20 thousand are charged directly to the profit and loss account as an expense upon consumption.

If the net book value of an asset exceeds its estimated recoverable amount, a provision is created against the asset.

d) Investments in subsidiaries and associates

A company with controlling influence (a subsidiary) is an enterprise or business entity controlled by Škoda Auto whose financial and operating decisions may be determined by Škoda Auto in order to obtain benefits from its activities.

A company with significant influence (an associate) is an enterprise or business entity in which Škoda Auto may participate in financial and operating decision making, however it may not control the company.

Investments in subsidiaries and associates are recorded at cost less a provision for diminution in value.

The Company is not obliged to compile consolidated financial statements according to the Decree 500/2002 Coll. for the years ended 31 December 2004 and 2003, because the Company is included in the consolidation of the Volkswagen Group. VOLKSWAGEN AG, its parent company, uses International Financial Reporting Standards for the compilation of its consolidated financial statements.

For the year ended 31 December 2002 the Company had this obligation but the Company was granted an exception from the obligation by the Securities Commission and permitted to publish unconsolidated financial statements.

e) Other equity investments and long-term financial assets

The Company keeps records of investments in which it has a minority share. These investments are initially recorded at acquisition cost including any transaction costs. Subsequently, they are valued at fair value.

f) Inventories

Purchased inventories, including raw materials, consumables, supplies and materials used in production, and goods, are valued at acquisition costs or at net realisable value if this amount is lower. Acquisition costs also include customs duty, packaging and freight charges. A weighted average calculation is used to account for consumption of material inventories and for all sales.

Inventories generated from own production, including work in progress and finished goods, are valued at their production costs, which include direct materials, direct wages and production overhead. Administrative overhead expenses are not included in the valuation of work in progress and finished goods.

The value of inventories is reduced by provisions to recognise all known risks relating to obsolete raw materials and consumables, excessive spare part inventories and reductions in the realisable value of goods.

g) Receivables

Receivables are carried at nominal value less a provision for doubtful receivables and bad debts. In addition to tax-deductible provisions made pursuant to Sections 8 and 8a of Act No. 593/1992 Coll. on provisions, as amended, the value of receivables is reduced by provisions created for specific and general risks and losses in compliance with Section 24 and 25 of the Accounting Act No. 563/1991 Coll., as amended.

h) Financial assets

The balance of cash held in banks primarily consists of short-term time deposits.

i) Provisions

Provisions are created when the Company has an existing obligation, it is probable that an outflow of resources will be required to settle such obligation and that a reliable estimate of the amount can be made.

The Company creates provisions for significant future repairs of fixed assets in compliance with Section 7 of Act No. 593/1992 Coll., on provisions.

j) Liabilities

Liabilities and bonds issued are stated at their nominal values. Issue discount and other costs connected with the issue of securities are accrued according to the maturity of the bonds issued.

k) Foreign currency translations

Individual transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank at the date of the financial statements. All exchange gains and losses on translations of monetary assets and liabilities are recorded in the profit and loss account.

Investments in subsidiaries and associates, which are denominated in a foreign currencies, are translated at the exchange rate published by the Czech National Bank at the date of the balance sheet date. Any material translation difference is recognised in equity.

l) Derivative financial instruments

The Company uses derivative financial instruments for hedging of interest rate and currency exposures.

Derivative financial instruments are initially recognised on the balance sheet at acquisition costs and subsequently are re-valued to their fair value. The fair value of swaps is calculated based on the present value of estimated future cash flows. Option pricing models are used to determine the fair value of options.

All derivative financial instruments are classified as other receivables, in case they have a positive fair value, or they are classified as other liabilities, if their fair value is negative.

The changes of the fair value of the derivative financial instruments held for trading are accounted for as other financial expenses or other financial income.

The Company designates certain derivative financial instruments to hedge future cash flows relating to certain assets or liabilities, expected transactions or commitments. The Company treats derivatives relating to cash flows as hedging derivatives, provided that the qualifying criteria for hedge accounting relating to the required documentation and hedging effectiveness according to Section 52 of the Decree No. 500/2002 Coll. are met.

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in a separate reserve in equity. Amounts deferred in this reserve are transferred to the income statement and classified as income or expense in the periods during which the related hedged item affects the income statement.

m) Complex prepaid expenses

Costs related to production planning, preparation and expansion of production plant ("preparation and start-up of production") are classified as complex prepaid expenses. These expenses are amortised to the profit and loss account over two years from the launch of the first pre-production series (or commencement of series production) of a new car model or from the start of production (from commencement of production process) in newly built manufacturing capacities.

n) Deferred taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

o) Leasing

Financial and operating lease instalments are expensed in the current accounting period. In accordance with valid accounting policies, leased assets are not recorded as tangible fixed assets in the balance sheet.

p) Revenue

Sales are accounted for on the date of the shipment of products or goods net of value added tax.

q) Related parties

The Company's related parties are classified as follows:

- Companies forming a group of companies with Škoda Auto;
- Shareholders who directly or indirectly might exert a significant or controlling influence over Škoda Auto and other companies over which such shareholders have significant controlling influence;
- Members of statutory, supervisory and management bodies and individuals related to such persons, including companies over which these members and persons have a significant or controlling influence; and
- Companies with joint members of management with the Company.

r) Extraordinary items and changes in accounting policies

Extraordinary revenues and expenses include one-off effects of events not related to the business activity of the Company and the effects of changes in accounting policies.

s) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

2. Fixed assets (in thousand CZK)

Fixed assets development in 2002 – 2004 may be analysed as follows:

	Intangible fixed assets	Tangible fixed assets	Long-term investments	Total
Balance at 1 Jan. 2002	213,761	44,088,949	705,473	45,008,183
Additions/Transfers	821,133	10,721,438	43,589	11,586,160
Disposals	–	(702,349)	(40,838)	(743,187)
Depreciation/Amortisation/Provisions	(143,030)	(10,785,602)	(49,094)	(10,977,726)
Balance at 31 Dec. 2002	891,864	43,322,436	659,130	44,873,430
Additions/Transfers	917,600	9,257,972	71,980	10,247,552
Disposals	–	(674,938)	(50,571)	(725,509)
Depreciation/Amortisation/Provisions	(161,795)	(10,159,763)	–	(10,321,558)
Balance at 31 Dec. 2003	1,647,669	41,745,707	680,539	44,073,915
Additions/Transfers	542,468	7,489,602	397,518	8,429,588
Disposals	–	(610,439)	(98,898)	(709,337)
Depreciation/Amortisation/Provisions	(447,422)	(10,203,888)	–	(10,651,310)
Balance at 31 Dec. 2004	1,742,715	38,420,982	979,159	41,142,856

Intangible and tangible assets expensed on consumption were as follows:

	Acquired in 2004	Acquired in 2003	Acquired in 2002
Intangible assets up to CZK 60 thousand	31,085	63,648	39,026
Tangible assets up to CZK 20 thousand	251,482	216,151	232,853
Total	282,567	279,799	271,879

3. Intangible fixed assets (in thousand CZK)

	Software	Development costs	Royalties	Intangible fixed assets in progress and other	Total
Acquisition cost					
Balance at 1 Jan. 2002	477,749	1,109,431	86,716	2,753	1,676,649
Additions/Transfers	176,971	-	14,282	629,880	821,133
Disposals	(2,702)	-	-	-	(2,702)
Balance at 31 Dec. 2002	652,018	1,109,431	100,998	632,633	2,495,080
Accumulated amortisation					
Balance at 1 Jan. 2002	355,962	1,067,404	38,972	550	1,462,888
Additions/Transfers	114,526	16,268	9,552	2,684	143,030
Disposals	(2,702)	-	-	-	(2,702)
Balance at 31 Dec. 2002	467,786	1,083,672	48,524	3,234	1,603,216
Net book value 2002	184,232	25,759	52,474	629,399	891,864
Acquisition cost					
Balance at 1 Jan. 2003	652,018	1,109,431	100,998	632,633	2,495,080
Additions/Transfers	81,956	-	-	835,644	917,600
Disposals	(14,996)	-	-	-	(14,996)
Balance at 31 Dec. 2003	718,978	1,109,431	100,998	1,468,277	3,397,684
Accumulated amortisation					
Balance at 1 Jan. 2003	467,786	1,083,672	48,524	3,234	1,603,216
Additions/Transfers	131,871	16,269	8,406	5,249	161,795
Disposals	(14,996)	-	-	-	(14,996)
Balance at 31 Dec. 2003	584,661	1,099,941	56,930	8,483	1,750,015
Net book value 2003	134,317	9,490	44,068	1,459,794	1,647,669
Acquisition cost					
Balance at 1 Jan. 2004	718,978	1,109,431	100,998	1,468,277	3,397,684
Additions/Transfers	235,645	-	1,658,110	(1,351,287)	542,468
Disposals	(29,556)	(478,502)	-	-	(508,058)
Balance at 31 Dec. 2004	925,067	630,929	1,759,108	116,990	3,432,094
Accumulated amortisation					
Balance at 1 Jan. 2004	584,661	1,099,941	56,930	8,483	1,750,015
Additions/Transfers	201,397	9,490	225,540	10,995	447,422
Disposals	(29,556)	(478,502)	-	-	(508,058)
Balance at 31 Dec. 2004	756,502	630,929	282,470	19,478	1,689,379
Net book value 2004	168,565	-	1,476,638	97,512	1,742,715

In the year ended 31 December 2004 the right to use Volkswagen Group tooling for the development of a new platform was transferred in amount of CZK 1,658,110 thousand from intangible fixed assets in progress to royalties. As at 31 December 2003 was this right in amount of CZK 1,273,688 thousand (2002: CZK 610,688 thousand) included in the balance of intangible fixed assets in progress.

4. Tangible fixed assets (in thousand CZK)

	Land and buildings	Technical equipment and machinery	Other equipment	Construction in progress and advance payments	Total
Acquisition cost					
Balance at 1 Jan. 2002	16,819,502	40,429,675	22,056,091	8,853,175	88,158,443
Additions	1,336,579	4,325,626	3,154,144	1,940,479	10,756,828
Transfers	1,568,717	2,872,557	1,617,564	(6,094,228)	(35,390)
Disposals	(11,543)	(3,047,850)	(1,529,776)	-	(4,589,169)
Balance at 31 Dec. 2002	19,713,255	44,580,008	25,298,023	4,699,426	94,290,712
Accumulated depreciation					
Balance at 1 Jan. 2002	3,390,993	25,900,700	14,777,801	-	44,069,494
Additions	626,689	6,219,263	3,837,286	-	10,683,238
Transfers	26	8,507	(8,533)	-	-
Disposals	(7,248)	(3,061,421)	(818,151)	-	(3,886,820)
Balance at 31 Dec. 2002	4,010,460	29,067,049	17,788,403	-	50,865,912
Provision	70,008	32,356	-	-	102,364
Net book value 2002	15,632,787	15,480,603	7,509,620	4,699,426	43,322,436
Acquisition cost					
Balance at 1 Jan. 2003	19,713,255	44,580,008	25,298,023	4,699,426	94,290,712
Additions	373,022	827,704	2,101,158	5,967,621	9,269,505
Transfers	571,464	1,576,945	947,251	(3,107,194)	(11,534)
Disposals	(41,236)	(1,003,107)	(1,263,185)	-	(2,307,528)
Balance at 31 Dec. 2003	20,616,505	45,981,550	27,083,247	7,559,853	101,241,155
Accumulated depreciation					
Balance at 1 Jan. 2003	4,010,460	29,067,049	17,788,403	-	50,865,912
Additions	656,920	5,644,884	3,798,214	-	10,100,018
Transfers	-	(3)	3	-	-
Disposals	(36,242)	(970,883)	(608,138)	-	(1,615,263)
Balance at 31 Dec. 2003	4,631,138	33,741,047	20,978,482	-	59,350,667
Provision	70,008	44,946	29,827	-	144,781
Net book value 2003	15,915,359	12,195,557	6,074,938	7,559,853	41,745,707
Acquisition cost					
Balance at 1 Jan. 2004	20,616,505	45,981,550	27,083,247	7,559,853	101,241,155
Additions	458,034	2,413,835	3,309,711	1,316,646	7,498,226
Transfers	906,976	2,241,719	2,775,371	(5,932,690)	(8,624)
Disposals	(16,445)	(152,124)	(1,555,902)	-	(1,724,471)
Balance at 31 Dec. 2004	21,965,070	50,484,980	31,612,427	2,943,809	107,006,286
Accumulated depreciation					
Balance at 1 Jan. 2004	4,631,138	33,741,047	20,978,482	-	59,350,667
Additions	695,293	5,664,125	3,798,925	-	10,158,343
Transfers	(3,039)	3,031	8	-	-
Disposals	(5,247)	(187,023)	(921,762)	-	(1,114,032)
Balance at 31 Dec. 2004	5,318,145	39,221,180	23,855,653	-	68,394,978
Provision	104,310	67,089	18,927	-	190,326
Net book value 2004	16,542,615	11,196,711	7,737,847	2,943,809	38,420,982

In 2004, 2003 and 2002 a provision was made against tangible fixed assets for technical equipment and machinery and special tools to be disposed of. In 2004 and 2002 a provision was posted to tangible fixed assets to reflect the estimated recoverable value of certain buildings.

No assets were acquired by the Company under financial lease contracts in 2002 – 2004.

5. Long-term financial assets (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
Shareholdings	837,331	557,191	552,744
Other financial assets	230,922	212,442	195,480
Gross total	1,068,253	769,633	748,224
Provisions for diminution in value of shareholdings	(49,094)	(49,094)	(49,094)
Provisions for diminution in value of other financial assets	(40,000)	(40,000)	(40,000)
Total net	979,159	680,539	659,130

A provision of CZK 49,094 thousand was created during 2002 to reflect a diminution in the realisable value of the investment in ŠKODA IMMO s.r.o.

6. Investments in subsidiaries, associates and other equity investments

Škoda Auto has investments in the following subsidiaries and associates and other equity investments:

	Book value			Shareholding %	Shareholding 31 Dec. 2003* in CZK thousand	Shareholders' Equity 31 Dec. 2003* in thousand	Profit /loss 2003* in thousand	Currency
	31 Dec. 2004 in CZK thousand	31 Dec. 2003 in CZK thousand	31 Dec. 2002 in CZK thousand					
Subsidiaries:								
ŠkodaAuto Deutschland GmbH	197,739	197,739	197,739	100.0	(40,409)	(1,247)	3,169	EUR
ŠKODA AUTO Slovensko, s.r.o.	48,917	48,917	48,917	100.0	210,711	267,706	(3,512)	SKK
ŠKODA IMMO s.r.o.	152,905	212,906	212,906	100.0	223,992	223,992	2,261	CZK
ŠKODA AUTO BH d.o.o.	175	175	175	100.0	3,711	224	214	DEM
ZAO Evroavto	100	100	100	75.1	66	100	-	RUR
Skoda Auto Polska S.A.	838	838	838	51.0	91,409	26,006	6,853	PLN
Skoda Auto India Private Ltd.**	17,947	17,947	-	99.99	(260,358)	(420,911)	(398,487)	INR
Subtotal	418,621	478,622	460,675					
Associates:								
e4t electronics								
for transportation s.r.o.	98	98	98	49.0	2,760	5,633	4,105	CZK
ŠKO-ENERGO, s.r.o.	3,400	3,400	3,400	34.0	6,625	19,485	2,268	CZK
Subtotal	3,498	3,498	3,498					
Other equity investments:								
ŠKO-ENERGO FIN, s.r.o.	24,237	25,977	39,477	10.0	48,929	489,291	156,919	CZK
Total	446,356	508,097	503,650					

* The information is as at 31 December 2003 as the audited financial statements for 2004 were not available at the date of preparation of the notes to the financial statements of Škoda Auto.

** As at 31 March 2004 (additional comment is on page 70).

The financial situation of ŠkodaAuto Deutschland GmbH in previous years was considerably influenced by the recession on the world markets. Given that the situation improved in 2004 and 2003 and the Company expects a further improvement in the future, no provision was made against the investment.

During the year the book value of investment in ŠKODA IMMO s.r.o. decreased by CZK 60 million due to the decrease of the registered capital of this company.

During 2003, the registered capital of Skoda Auto India Private Ltd. was increased and the Company's shareholding in Skoda Auto India Private Ltd. increased from 50% to 99.99%. In 2004 the registered capital was increased by CZK 341,881 thousand. The increase was at the balance sheet date in the process of approval by Indian authorities. From this reason the increase of registered capital is recorded in investments in progress. Given the expected improvement in financial situation of Skoda Auto India Private Ltd. the Company has not created any provision against the investment.

Enterprises and companies in which Škoda Auto holds investments have paid dividends to the Company in an amount of CZK 28,816 thousand in 2004 (2003: CZK 25,973 thousand, 2002: CZK 22,494 thousand).

The registered offices of subsidiaries and associates are as follows:

ŠkodaAuto Deutschland GmbH	Weiterstadt, Federal Republic of Germany
ŠKODA AUTO Slovensko, s.r.o.	Bratislava, Slovakia
ŠKODA IMMO s.r.o.	Mladá Boleslav, Czech Republic
Skoda Auto Polska S.A.	Poznan, Poland
e4t electronics for transportation s.r.o.	Prague, Czech Republic
ŠKO-ENERGO, s.r.o.	Mladá Boleslav, Czech Republic
ŠKODA AUTO BH d.o.o.	Sarajevo-Vogosca, Bosnia-Herzegovina
ZAO Evroavto	Sergiev Posad, Russian Federation
Skoda Auto India Private Ltd.	Aurangabad, India

7. Inventories (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
Raw materials	3,342,904	3,092,926	3,005,192
Work in progress	1,938,000	1,445,492	1,579,365
Finished goods	1,752,366	1,199,804	1,752,226
Goods for resale	1,687,977	1,621,046	1,508,273
Gross total	8,721,247	7,359,268	7,845,056
Provision for diminution in value	(332,494)	(278,502)	(187,570)
Total net	8,388,753	7,080,766	7,657,486

8. Receivables (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
Trade receivables*:			
Domestic	3,017,816	2,886,143	4,063,436
Foreign	2,985,119	4,284,826	5,225,303
of which "> 180 days overdue"	(656,005)	(776,564)	(730,324)
Gross trade receivables:	6,002,935	7,170,969	9,288,739
Provisions	(752,634)	(686,878)	(502,293)
Net trade receivables:	5,250,301	6,484,091	8,786,446
Other receivables:			
Taxes	2,055,415	4,129,531	3,512,138
Net other**	10,347,689	1,755,303	1,335,784
of which "long-term"	(969,919)	(1,045,902)	(977,863)
Total receivables	17,653,405	12,368,925	13,634,368

* Short-term and long-term.

** Other receivables include receivables related to loans provided to group companies in amount of CZK 8,600,000 thousand.

9. Liabilities (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
Trade liabilities:			
Domestic	7,755,752	6,376,762	4,522,952
Foreign	8,108,202	6,559,210	6,864,968
of which "> 180 days overdue" *	(71,638)	(346,386)	(105,687)
Total trade liabilities	15,863,954	12,935,972	11,387,920
Other liabilities:			
Taxes**	66,623	61,743	55,872
Social security**	154,223	142,361	134,519
Health insurance**	66,367	62,282	58,894
Personnel expenses	363,724	342,900	326,070
Other***	15,939,828	15,734,343	15,637,488
of which "long-term"	(5,000,000)	(10,000,000)	(10,000,000)
Total liabilities	32,454,719	29,279,601	27,600,763

* Liabilities for claims (liabilities not acknowledged by the Company).

** There were no overdue liabilities as at balance sheet date in these categories.

*** Other liabilities include bonds in amount of CZK 10,000,000 thousand.

10. Bonds issued (in thousand CZK)

The Company issued bonds, with a total value of CZK 10 billion on 26 October 2000, each with a nominal value of CZK 100 thousand. The bonds are publicly traded without restriction of transferability on the secondary market of the Prague Stock Exchange and the RM-System. The bonds were issued pursuant to the Czech legislation and are governed by the Czech law. Commerzbank Capital Markets (Eastern Europe) a.s. is the lead manager, and Československá obchodní banka, a.s. is the administrator of the issue. The issue was realised by registration at the Securities Centre in Prague under an agreement entered into prior to the date of issuance.

	ISIN	Amount in CZK thousand	Nominal value in CZK thousand	Bonds number	Issue rate
1. tranche	CZ0003501207	5,000,000	100	50,000	99.9%
2. tranche	CZ0003501181	3,000,000	100	30,000	100.0%
3. tranche	CZ0003501199	2,000,000	100	20,000	100.0%
Total		10,000,000		100,000	

Both the interest and the nominal value of bonds are paid solely in CZK through the administrator: Československá obchodní banka, a.s., Na Příkopě 14, 115 20 Praha 1.

	ISIN	Nominal value repayments	Maturity of interests	Bond yield
1. tranche	CZ0003501207	26 Oct. 2005	annually on 26 Oct.	7.25%
2. tranche	CZ0003501181	26 Oct. 2007	semi-annually on 26 Apr. and on 26 Oct.	6M Pribor + 0.14%
3. tranche	CZ0003501199	26 Oct. 2010	semi-annually on 26 Apr. and on 26 Oct.	6M Pribor + 0.22%

11. Other assets – accruals and deferrals

Anticipated assets amounting to CZK 42,019 thousand as at 31 December 2002 have been reclassified to short-term receivables in the financial statements as at 31 December 2004 and 2003.

12. Equity (in thousand CZK)

The development of equity in 2002 – 2004 may be analysed as follows:

	Registered capital	Capital contributions	Statutory reserve fund	Retained earnings and profit for the current period	Total
Balance at 1 Jan. 2002	16,708,850	1,578,172	477,191	9,393,231	28,157,444
Transfer to statutory reserve fund from 2001 profit	-	-	106,447	(106,447)	-
Valuation differences from revaluation of financial derivatives	-	(1,005,849)	-	-	(1,005,849)
Deferred tax	-	229,889	-	610,346	840,235
Profit for current period	-	-	-	1,825,141	1,825,141
Balance at 31 Dec. 2002	16,708,850	802,212	583,638	11,722,271	29,816,971
Transfer to statutory reserve fund from 2002 profit	-	-	91,257	(91,257)	-
Valuation differences from revaluation of financial derivatives	-	565,687	-	-	565,687
Deferred tax	-	(102,493)	-	-	(102,493)
Profit for current period	-	-	-	1,477,765	1,477,765
Balance at 31 Dec. 2003	16,708,850	1,265,406	674,895	13,108,779	31,757,930
Transfer to statutory reserve fund from 2003 profit	-	-	73,889	(73,889)	-
Valuation differences from revaluation of financial derivatives	-	878,787	-	-	878,787
Deferred tax	-	(239,530)	-	-	(239,530)
Dividends	-	-	-	(3,050,000)	(3,050,000)
Profit for current period	-	-	-	3,496,570	3,496,570
Balance at 31 Dec. 2004	16,708,850	1,904,663	748,784	13,481,460	32,843,757

The statutory reserve fund may only be used to cover losses. In accordance with the relevant provisions of the Commercial Code, Škoda Auto creates a statutory reserve fund in an amount of 5% of the net profit annually until this reserve reaches 20% of the share capital.

13. Share capital

The share capital subscribed consists of 1,670,885 registered shares, each with a nominal value of CZK 10 thousand. VOLKSWAGEN AG, Wolfsburg is the sole shareholder of the Company.

14. Retained earnings and profit for the current period (in thousand CZK)

According to the resolution of the sole shareholder on 20 February 2004, the profit for 2003 of CZK 1,477,765 thousand was distributed as follows:

	2003	2002	2001
Allocation to statutory reserve fund	73,889	91,257	106,447
Profit allocated to retained profit	1,403,876	1,733,884	2,022,490
Profit after tax	1,477,765	1,825,141	2,128,937

The Annual General Meeting of the Company in 2005 will decide upon the distribution of the profit for 2004.

According to the resolution of the sole shareholder on 30 June 2004, the dividend of 3,050,000 thousand CZK was paid to the sole shareholder.

15. Bank loans

The Company has no bank loans as at 31 December 2004 (2003: CZK 0 million, 2002: CZK 5,000 million).

16. Provisions (in thousand CZK)

Provisions development in 2002 – 2004 may be analysed as follows:

	Balance at 1 Jan. 2002	Creation	Release/use	Balance at 31 Dec. 2002
Tax deductible provisions				
Fixed asset repairs	361,080	24,641	228,685	157,036
Other provisions				
Warranty repairs	3,197,103	2,413,018	1,927,784	3,682,337
Financial derivatives	53,370	–	53,370	–
Legal and other risks	173,327	141,100	3,100	311,327
Provisions for exchange losses	27,862	–	27,862	–
Provision for income tax	126,059	924,759	803,545	247,273
Provisions total	3,938,801	3,503,518	3,044,346	4,397,973
	Balance at 1 Jan. 2003	Creation	Release/use	Balance at 31 Dec. 2003
Tax deductible provisions				
Fixed asset repairs	157,036	118,912	103,142	172,806
Other provisions				
Warranty repairs	3,682,337	2,944,029	2,281,065	4,345,301
Provision for scrapping	–	100,705	–	100,705
Legal and other risks	311,327	91,900	194,200	209,027
Provision for income tax	247,273	1,196,499	1,163,693	280,079
Provisions total	4,397,973	4,452,045	3,742,100	5,107,918
	Balance at 1 Jan. 2004	Creation	Release/use	Balance at 31 Dec. 2004
Tax deductible provisions				
Fixed asset repairs	172,806	161,685	38,246	296,245
Other provisions				
Warranty repairs	4,345,301	3,260,806	2,640,334	4,965,773
Provision for scrapping	100,705	–	16,794	83,911
Legal and other risks	209,027	295,800	61,800	443,027
Provision for income tax	280,079	1,670,876	1,217,861	733,094
Provisions total	5,107,918	5,389,167	3,975,035	6,522,050

In compliance with EU directive 2000/53/EG and the Act on Waste effective 23 April 2004 concerning the obligation of producers to take back scrap cars, a provision for scrapping of old cars produced by the Company is created. As at 31 December 2004 the provision amounted to CZK 84 million (in 2003: CZK 101 million).

The calculation of the income tax and deferred tax is given in Note 24 – Corporate tax.

17. Other liability accounts – accruals and deferrals

Anticipated liabilities recorded in the financial statements as at 31 December 2002 amounting to CZK 4,676,127 thousand were reclassified to short term liabilities in the financial statements as at 31 December 2004 and 2003.

18. Sales (in thousand CZK)

Sales from ordinary activities in 2002 – 2004 may be analysed as follows:

	2004	%	2003	%	2002	%
Goods for resale	10,030,504	6.5	9,127,204	6.3	8,568,724	5.9
Own products	143,519,832	93.5	136,069,931	93.7	137,124,802	94.1
Total	153,550,336	100.0	145,197,135	100.0	145,693,526	100.0
Cars	138,685,616	90.3	130,901,438	90.2	131,756,405	90.4
Spare parts	10,341,651	6.7	9,471,716	6.5	8,742,241	6.0
Other	4,523,069	3.0	4,823,981	3.3	5,194,880	3.6
Total	153,550,336	100.0	145,197,135	100.0	145,693,526	100.0
Domestic	22,445,917	14.6	24,453,502	16.8	25,707,722	17.7
Foreign	131,104,419	85.4	120,743,633	83.2	119,985,804	82.3
Total	153,550,336	100.0	145,197,135	100.0	145,693,526	100.0

19. Staff costs structure (in thousand CZK)

The average number of employees and the executives and corresponding personnel costs are as follows:

		Number	Wages and salaries	Social security expenditures	Other social expenses
Personnel	2004	20,573	5,762,005	1,988,786	106,712
	2003*	20,871	5,473,554	1,921,221	117,133
Management	2002	21,089	5,407,611	1,852,957	104,717
	2004	411	480,059	156,782	4,897
	2003	385	409,609	133,566	4,133
Total	2002	363	353,806	110,318	4,101
	2004	20,984	6,242,064	2,145,568	111,609
	2003*	21,256	5,883,163	2,054,787	121,266
	2002	21,452	5,761,417	1,963,275	108,818

* Since 2003 the number of employees also includes trainees and employees who are retraining in requalification programs (2002: 21,393 employees). The number of management did not change following this reclassification.

20. Remuneration of members of the Board of Directors, Supervisory Board, and senior management

The members of the Board of Directors did not receive any remuneration as directors for 2004. Their salaries received are included in the table in Note 19 and 5 company cars were made available for them (2003: 7 cars, 2002: 7 cars).

Members of the Supervisory Board received remuneration as Supervisory Board members in the amount of CZK 559 thousand in 2004 (2003: CZK 457 thousand, 2002: CZK 435 thousand). Of this remuneration CZK 239 thousand (2003: CZK 153 thousand, 2002: CZK 145 thousand) was paid to members of the Supervisory Board who are not employed by Škoda Auto. The salaries of members of the Supervisory Board employed by Škoda Auto are included in the table in Note 19. 4 company cars (2003: 3 cars, 2002: 3 cars) were made available to the members of the Supervisory Board.

The salaries of senior management are set out in the table in Note 19. Company cars are made available to senior management. The Company did not provide any loans to the members of the Board of Directors or the Supervisory Board.

21. Research and development costs (in thousand CZK)

Research and development costs related to new models of passenger cars amounted to CZK 3,985 million in 2004 (2003: CZK 4,851 million, 2002: CZK 4,304 million). In 2004 Škoda Auto recorded expenses amounting to CZK 524 million (2003: CZK 639 million, 2002: CZK 485 million) for the production of prototypes and test vehicles. Additionally, development costs have been amortised by CZK 9 million in 2004 (2003: CZK 16 million, 2002: CZK 16 million).

22. Financial income and expense (in thousand CZK)

	2004		2003		2002	
	Income	Expense	Income	Expense	Income	Expense
Interest	303,343	675,931	76,782	1,007,617	153,604	1,193,986
Foreign exch. rate differences	2,271,171	2,359,893	1,634,969	2,388,252	3,562,613	2,268,078
Factoring fees and other financial expenses	-	607,990	-	1,034,348	-	1,443,665
Other income from financial investments	28,816	-	25,973	-	22,494	48,812
Release of provision for exchange rate losses	-	-	-	-	27,862	-
Total	2,603,330	3,643,814	1,737,724	4,430,217	3,766,573	4,954,541

23. Derivative financial instruments (in thousand CZK)

The fair value of the Company's derivative financial instruments is recognised under "Other receivables" if the balance is positive and in "Other liabilities" if it is negative.

	31 Dec. 2002		Nominal value
	positive	Fair value negative	
Hedging derivatives:			
Currency forwards	40,088	438,132	23,624,019
Currency swaps	9,545	-	1,214,631
Interest rate swaps	-	380,515	2,000,000
Trading derivatives:			
Currency options	21,872	-	9,461,525
Currency swaps	6,372	808	604,266
Total derivatives	77,877	819,455	36,904,441

	31 Dec. 2003		Nominal value
	positive	Fair value negative	
Hedging derivatives:			
Currency forwards	114,975	614,135	39,391,935
Currency swaps	16,391	-	1,257,017
Interest rate swaps	31,239	-	5,000,000
Trading derivatives:			
Currency swaps	48	-	4,877
Total derivatives	162,653	614,135	45,653,829

	31 Dec. 2004		Nominal value
	positive	Fair value negative	
Hedging derivatives:			
Currency forwards	666,333	186,030	16,266,393
Currency swaps	-	2,460	676,505
Interest rate swaps	-	45,427	5,000,000
Trading derivatives:			
Currency swaps	-	4,048	913,950
Total derivatives	666,333	237,965	22,856,848

Škoda Auto uses interest rate swaps for the hedging of floating interest rate bonds cash flow. Currency instruments are utilised for foreign exchange rate exposure hedging resulting from anticipated and contracted foreign exchange sales revenues as well as operational and investment payments.

Škoda Auto has not concluded any new currency options since 2002.

The change in fair value of above mentioned hedging derivatives is recorded in valuation differences from hedging derivatives in equity until the moment, when the hedged items will affect the income statement.

The Company has financial derivatives, which are intended to be used as hedging instruments, but which do not meet the criteria for hedging accounting. These derivatives are therefore classified as trading derivatives.

24. Corporate tax (in thousand CZK)

The tax expense includes following amounts:

Corporate income tax	2004	2003	2002
Current tax	1,670,876	1,184,659	924,759
Deferred tax	(163,546)	(170,532)	(137,627)
Difference between preliminary and final tax calculation for previous periods	(188,632)	24,499	(123,500)
Total	1,318,698	1,038,626	663,632

The Company has recognised a deferred tax receivable in an amount of CZK 970 million as at 31 December 2004 (2003: CZK 1,046 million, 2002: CZK 978 million), since it is considered probable that sufficient future taxable profits will be available against which the asset can be utilised.

The deferred tax liability relating to derivative financial instruments, the fair value of which is recognised in equity as at 31 December 2004, has been accounted for as part of equity in an amount of CZK 112 million (2003: 127 million receivable, 2002: CZK 230 million receivable).

For the deferred tax calculation at 31 December 2004 and 2003 the corporate tax rates were used that are expected to apply in the period when the deferred tax assets and liabilities will be realised (2004: 28%, 2005: 26%, 2006: 24%). In 2002 the rate of 31% was used (tax rate for 2003). The impact of the change in the tax rate on the tax expense in 2004 represents CZK 139 million (in 2003: CZK 69 million).

The deferred tax receivable in 2002 – 2004 can be analysed as follows:

	2004	2003	2002
Deferred tax liability due to:			
Difference between accounting and tax net book value of fixed assets	417,910	495,950	552,713
Financial derivatives	173,247	44,561	24,142
Other temporary differences	51,608	95,402	127,987
Total	642,765	635,913	704,842
Deferred tax receivable due to:			
Provisions	1,551,570	1,509,857	1,423,901
Financial derivatives	61,114	171,958	254,031
Other temporary differences	-	-	4,773
Total	1,612,684	1,681,815	1,682,705
Net deferred tax receivable	969,919	1,045,902	977,863

25. Other financial liabilities not stated in the Balance Sheet

As at 31 December 2004 Škoda Auto had entered into contracts for the purchase of fixed assets amounting to CZK 2.7 billion (2003: CZK 3.1 billion, 2002: CZK 2.5 billion).

The Company has no liabilities secured by pledge or security.

26. Contingent liabilities

As at 31 December 2004 Škoda Auto has contingent liabilities arising from guarantees granted in the amount of CZK 73 million (2003: CZK 26 million, 2002: CZK 27 million), which are not recorded in the balance sheet and for which no provision has been created. The value of the potential liabilities corresponds to the amounts for which the Company has granted guarantees.

27. Related party transactions (in thousand CZK)

Škoda Auto concluded the following related party transactions:

	2004	2003	2002
Sales of vehicles	79,713,184	71,134,684	72,811,013
Sales of spare parts	4,255,379	3,932,068	3,656,007
Other*	4,038,348	3,520,894	3,965,696
Total	88,006,911	78,587,646	80,432,716
Purchases of production materials	28,724,068	24,908,644	23,114,133
Purchases of overhead material and services	6,953,265	9,301,198	8,359,749
Purchases spare parts	1,327,007	1,245,459	1,087,258
Purchases fixed assets	568,100	1,483,092	468,010
Total	37,572,440	36,938,393	33,029,150

* Sale of engines, gear boxes, services.

These transactions were concluded on arm's length terms and conditions and are recorded inclusive of VAT.

Receivables to related parties (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
VOLKSWAGEN AG	134,363	136,307	260,232
Volkswagen Sachsen GmbH	19,375	26,131	14,252
VOLKSWAGEN Group United Kingdom Ltd.	-	72,035	21,026
Groupe VOLKSWAGEN France s.a.	89,166	22,812	70,138
Volkswagen-Audi España, S.A.	85,627	70,082	52,272
VOLKSWAGEN SLOVAKIA, a.s.	80,651	90,401	111,911
AUDI AG	8,835	13,491	66,054
ROLLS-ROYCE & BENTLEY MOTOR CARS Limited	5,343	51,018	131,626
ŠkodaAuto Deutschland GmbH	287,609	-	85,561
Skoda Auto Polska S.A.	47,700	71,153	12,118
Import VOLKSWAGEN Group s.r.o.	54,913	49,121	37,990
Skoda Auto India Private Limited	408,862	555,839	1,270,489
ŠKODA AUTO BH d.o.o.	140,875	167,535	250,234
ŠkoFIN s.r.o.	334,521	213,856	25,855
ŠKO-ENERGO, s.r.o.	10,266	9,602	8,835
Volkswagen Navarra, S.A.	69,692	61,095	82,941
Svenska VOLKSWAGEN AB	-	-	21,625
SEAT, S.A.	70,488	104,569	4,042
AUTGERMA S.p.A.	74,827	58,489	8,141
ŠKODA IMMO s.r.o.	7,074	4,564	4,170
ŠkoLEASE s.r.o.	142,130	-	-
Volkswagen Group Avtomobili, Sergiev Posad	124,934	8,578	7,158
Europcar Fleet Services a.s.	58,079	-	-
Volkswagen do Brasil Ltda.	48,801	1,434	-
Skoda Auto Sverige AB, Södertälje	34,395	-	-
Other companies	12,136	6,227	15,489
Total	2,350,662	1,794,339	2,562,159

Liabilities to related parties (in thousand CZK)

	31 Dec. 2004	31 Dec. 2003	31 Dec. 2002
VOLKSWAGEN AG	1,508,628	1,317,783	1,463,674
Volkswagen Sachsen GmbH	284,645	164,628	190,259
Volkswagen Poznan Sp. z o.o.	17,077	15,570	43,390
VOLKSWAGEN Group United Kingdom Ltd.	241,210	158,719	148,755
Groupe VOLKSWAGEN France s.a.	261,484	309,785	478,383
VOLKSWAGEN OF AMERICA INC.	10,311	13,481	23,661
Volkswagen de México, S.A. de C.V.	4,134	53,079	87,962
VOLKSWAGEN Transport GmbH	203,904	202,276	188,211
Coordination Center Volkswagen S.A.	816,663	496,254	287,269
AUDI AG	67,292	31,436	127,626
AUDI HUNGARIA MOTOR Kft.	851,771	419,397	347,131
AUTOGERMA S.p.A.	237,970	67,368	335,424
ŠkodaAuto Deutschland GmbH	286,368	363,041	38,699
ŠKODA AUTO Slovensko, s.r.o.	-	26,277	12,697
ŠKO-ENERGO, s.r.o.	31,124	70,297	-
gedas ČR s.r.o.	71,712	54,342	51,813
Volkswagen-Audi España, S.A.	13,801	38,076	11,328
Gearbox del Prat, S.A.	747	21,568	3,093
VW Versicherungsvermittlungs-GmbH	13	34,116	-
IAV GmbH Ingenieurgesellschaft	3,279	13,550	-
Svenska VOLKSWAGEN AB	2,651	10,867	100
SEAT, S.A.	11,687	5	402
Skoda Auto Polska S.A.	53,352	2	-
ŠkoLEASE s.r.o.	72,406	-	-
Europcar Fleet Services a.s.	16,065	-	-
Other companies	41,349	46,661	22,060
Total	5,109,643	3,928,578	3,861,937

The receivables to, and liabilities to, related parties were realised on arm's length terms common to trade transactions and are recorded including VAT.

28. Other information (in thousand CZK)

The remuneration paid to auditors for the accounting period amounted to CZK 22,859 thousand.

	2004
Audit and other assurance services	14,372
Tax and related services	5,916
Other advisory services	2,571
Total	22,859

29. Significant post-balance sheet events

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2004.

30. Information about the Volkswagen Group

Škoda Auto is a subsidiary included in the consolidation group of its parent company VOLKSWAGEN AG, with a registered office in Wolfsburg, 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
- 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 from 2004 newly also 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. Information about the Company

Foundation and main activity of the Company:

Škoda Auto 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
ID No.: 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.

The organizational structure of the Company is divided to following main areas:

- Technical development
- Production and Logistics
- Quality
- Sales and Marketing
- Commercial Affairs
- HR Management

Apart from the main production site in Mladá Boleslav, the Company has two other production plants in Vrchlabí and Kvasiny.

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 2004 – 31 December 2004

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 2004 to 31 December 2004 (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 and other products sale contracts (tools) with the following companies:

AUDI AG

Volkswagen do Brasil Ltda.

VOLKSWAGEN AG

Volkswagen of South Africa (Pty.) Ltd.

ROLLS-ROYCE & BENTLEY MOTOR CARS Limited

Shanghai Volkswagen Automotive Company Ltd.

2. Purchase of goods and services

a) production material

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

AUDI AG	Volkswagen Navarra, S.A.
AUDI HUNGARIA MOTOR Kft.	Volkswagen Poznan Sp. z o.o.
VOLKSWAGEN AG	VOLKSWAGEN SLOVAKIA, a.s.
Volkswagen Argentina S.A.	Gearbox del Prat, S.A.
Volkswagen de México, S.A. de C.V.	VOLKSWAGEN Motor Polska Sp.z o.o
Volkswagen do Brasil Ltda.	SEAT, 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	AUTOGERMA S.p.A.
VOLKSWAGEN AG	Volkswagen-Bildungsinstitut GmbH
gedas ČR s.r.o.	Volkswagen Bordnetze GmbH
Volkswagen Sachsen GmbH	AUTO 5000 GmbH
AUDI AG	AUDI HUNGARIA MOTOR Kft.
Volkswagen Immobilien Service GmbH	SITECH Sp. z o.o.
Volkswagen of South Africa (Pty.) Ltd.	SEAT, S.A.
VOLKSWAGEN OF AMERICA, INC	VOLKSWAGEN Group United Kingdom Ltd.
Volkswagen Coaching GmbH	Volkswagen Motor Polska Sp. z o.o.
Svenska VOLKSWAGEN AB	Volkswagen Group Rus OOO
Groupe VOLKSWAGEN France s.a.	Volkswagen Poznan Sp. z o.o.
e4t electronics for transportation s.r.o.	VOLKSWAGEN SLOVAKIA, a.s.
ŠkodaAuto Deutschland GmbH	Volkswagen Bruxelles S.A.
Volkswagen Navarra, 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 Bruxelles S.A.
VOLKSWAGEN AG	SITECH Sp. z o.o.
SEAT, S.A.	

d) investment

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

gedas ČR s.r.o.	e4t electronics for transportation s.r.o.
VOLKSWAGEN AG	VOLKSWAGEN SLOVAKIA, a.s.
Import VOLKSWAGEN Group s.r.o.	AUDI HUNGARIA MOTOR Kft.
AUDI AG	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.

gedas ČR s.r.o.

VOLKSWAGEN AG

SkoLEASE s.r.o.

Import VOLKSWAGEN Group s.r.o.

Europcar Fleet Services a.s.

ŠKO-ENERGO, s.r.o.

INIS International Insurance Service s.r.o.

ŠkoFIN s.r.o.

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 Volkswagen, as its sole shareholder, a dividend of CZK 3,050,000,000 on 28 July 2004 based on the decision of Volkswagen as sole shareholder performing the office of the shareholder's meeting of 30 June 2004.

Škoda Auto, being the sole partner of ŠKODA IMMO s.r.o., acting in the capacity of General Assembly, held on 6 February 2004, exercised its right to decrease the registered capital of ŠKODA IMMO s.r.o. from CZK 756,000,000.00 to CZK 161,731,000.00. The amount of registered capital thus reduced was entered in the Commercial Register as of 10 August 2004. In accordance with the law, as a result of the decrease of registered capital, the difference was distributed as follows: CZK 534,268,880.15 for offsetting retained losses (of previous accounting periods) of ŠKODA IMMO s.r.o. and CZK 60,000,119.85 were paid out to the sole partner, i.e., Škoda Auto.

Škoda Auto, being a shareholder of Skoda Auto Polska S.A. voted at the General Assembly of Skoda Auto Polska S.A., on 11 March 2004, in favour of adopting the decision to increase the registered capital of Skoda Auto Polska S.A. from PLN 140,000.00 to PLN 560,000.00, to be covered from own resources of Skoda Auto Polska S.A. By deciding to increase the registered capital the General Assembly fulfilled its obligation under the Polish law.

Škoda Auto, as a partner of Skoda Auto India Private Limited, voted at the General Assembly of Skoda Auto India Private Limited, on 23 November 2004, to second the acceptance of the decision to increase the share capital of Skoda Auto India Private Limited by INR 645,000,000.00, from INR 21,371,660.00 to INR 666,371,660.00, but not from own resources of Skoda Auto India Private Limited. The augmentation of share capital is in process of registration as at the balance sheet date.

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.

The total value of all transactions with related parties during the accounting period is disclosed in notes 27 and 8 of the notes to 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 (in CZK)

According to the law, § 118 of the Act No. 256/2004 Coll., On Business Activities on the Capital Market for public companies, information on all monetary and in-kind income received, for the accounting period, by the management and members of the supervisory board from the issuer and from entities controlled by the issuer, namely for each member of the management staff and for each member of the Supervisory Board, is required.

In conformity with the law, these amounts only include amounts paid by the issuer, ŠKODA AUTO a.s., to the members of the statutory bodies and other management staff. The amounts stated below include wages, salaries and in-kind benefits, as company cars, accommodation, schooling and others. Bonuses relating to the accounting period 1 January 2004 to 31 December 2004 which will be paid later in 2005 have not been approved at the date of preparation of this Annual Report. Bonuses are therefore included based on actual amounts paid during the year relating to 2003.

The amounts of all monetary and in-kind benefits obtained by the members of the Board of Directors for their activities as Directors and management of ŠKODA AUTO a.s. from the issuer, ŠKODA AUTO a.s., for the accounting period 1 January 2004 to 31 December 2004 were as follows:

Board of Directors	Salaries and all other benefits
Dipl. Kfm. Detlef Wittig – Chairman ^{1/}	841,563
Dr. h. c. Ing. Vratislav Kulhánek – Chairman ^{2/}	5,041,019
Dipl. Ing. Winfried Vahland – Deputy Chairman	3,895,493
Dipl. Ing. Karl-Günter Büsching	2,861,260
Dr. Helmuth Schuster	3,176,810
Dipl.-Ökonom Fred Kappler	1,849,608

^{1/} 1. 10. 2004 – 31. 12. 2004

^{2/} 1. 1. 2004 – 30. 9. 2004

The amount of all monetary and in-kind benefits obtained by the members of the Supervisory Board for their activities as Supervisory Board members of ŠKODA AUTO a.s. from the issuer, ŠKODA AUTO a.s., for the accounting period 1 January 2004 to 31 December 2004 were as follows:

Supervisory Board	Salaries and all other benefits
Dr. h. c. Ing. Vratislav Kulhánek – Chairman ^{1/}	334,275
Dipl. Kfm. Detlef Wittig – Chairman ^{2/}	0
Dr. jur. Jens Neumann	0
Dr. rer. pol. Carl H. Hahn	0
Dipl.-Wirtsch.-Ing. Hans Dieter Pötsch	0
Dr. rer. pol. h. c. Peter Hartz	0
Ing. Václav Petříček	0
Prof. Dr.-Ing. h. c. mult. Folker Weißgerber	0
Ing. Jan Müller	235,677
Jaroslav Povšik	240,537
Ing. Jan Uhlíř	248,414

^{1/} 1. 10. 2004 – 31. 12. 2004

^{2/} 1. 1. 2004 – 30. 9. 2004

The amounts of all monetary and in-kind benefits obtained by other management staff for their activities as management of ŠKODA AUTO a.s. from the issuer, ŠKODA AUTO a.s., for the accounting period 1 January 2004 to 31 December 2004 were as follows:

Other Management	Salaries and all other benefits
Total	463,220,019

Due to the large number of other management staff (411 managers), the amounts are totalled only.

Preparation of the Annual Report and Post-Balance Sheet Events

Affirmation

The persons stated below, responsible for the preparation of this Annual Report, hereby confirm that to the best of their knowledge and belief that the information contained in this Annual Report is complete and accurate in all material respects and that no relevant matters 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 any material impact on an assessment of the Company's assets, liabilities and equity or the results of its operations.

Mladá Boleslav, on 14 February 2004



Detlef Wittig
Chairman of the Board of Directors



Winfried Vahland
Deputy Chairman of the Board of Directors,
Commercial Affairs



François Evers
Director of Accounting



Ivana Witczaková
Head of closing accounts and external reporting

Business Results in Review

Production, Sales and Technical Data

		1998	1999	2000	2001	2002	2003	2004
Deliveries to customers	vehicles	363,500	385,330	435,403	460,252	445,525	449,758	451,675
Sales	vehicles	400,269	376,329	448,394	460,670	440,572	438,843	441,820
Production	vehicles	403,515	371,169	450,910	460,886	442,469	437,554	444,121
Employees	persons	22,768	22,030	25,833	24,129	23,470	22,798	24,561
of which: External	persons	2,327	1,708	3,245	2,735	2,179	2,308	3,664

Profit and Loss Account

		1998	1999	2000	2001	2002	2003	2004
Total revenues	CZK millions	105,704	110,409	136,283	153,271	145,694	145,197	153,550
of which: Domestic	%	23	19	18	18	18	17	15
Export	%	77	81	82	82	82	83	85
Raw materials and consumables	CZK millions	78,899	80,426	105,996	116,350	109,868	108,283	115,382
	% of revenues	74.6	72.8	77.8	75.9	75.4	74.6	75.1
Value added	CZK millions	17,516	18,513	18,977	22,296	22,056	23,343	24,884
	% of revenues	16.6	16.8	13.9	14.6	15.1	16.0	16.2
Staff costs	CZK millions	5,803	6,629	7,465	7,583	7,834	8,060	8,500
	% of revenues	5.5	6.0	5.4	5.0	5.4	5.6	5.5
Depreciation	CZK millions	6,018	6,516	7,768	9,646	10,826	10,296	10,606
	% of revenues	5.7	5.9	5.7	6.3	7.4	7.0	6.9
Operating profit	CZK millions	5,206	5,237	5,204	4,643	3,677	5,209	5,856
	% of revenues	4.9	4.7	3.8	3.0	2.5	3.6	3.9
Financial result	CZK millions	(1,604)	(1,422)	(1,029)	(1,969)	(1,188)	(2,692)	(1,041)
Profit before taxation	CZK millions	3,702	3,814	4,175	2,674	2,489	2,517	4,815
Profit before taxation-to-revenues ratio	%	3.5	3.5	3.1	1.7	1.7	1.7	3.2
Tax on profit or loss	CZK millions	1,463	1,177	839	545	664	1,039	1,318
Profit after taxation	CZK millions	2,239	2,637	3,336	2,129	1,825	1,478	3,497
Profit after taxation-to-revenues ratio	%	2.1	2.4	2.4	1.4	1.3	1.0	2.3

Balance Sheet/Financing

		1998	1999	2000	2001	2002	2003	2004
Fixed assets	CZK millions	29,482	33,687	39,175	45,008	44,873	44,074	41,143
Current assets and other assets	CZK millions	21,893	21,923	27,486	21,603	21,945	22,077	30,694
of which: Receivables	CZK millions	0	0	0	0	0	0	8,600
Equity	CZK millions	20,236	22,700	26,032	28,157	29,817	31,758	32,844
Liabilities and other liabilities	CZK millions	31,139	32,910	40,629	38,454	37,001	34,393	38,993
of which: Bonds	CZK millions	0	0	10,000	10,000	10,000	10,000	10,000
Provisions due to special law regulation	CZK millions	4,793	4,949	4,284	3,939	4,398	5,108	6,522
Bank loans	CZK millions	2,500	3,000	4,850	2,000	5,000	0	0
Assets	CZK millions	51,375	55,610	66,661	66,611	66,818	66,151	71,837
Gross cash flow	CZK millions	8,795	9,780	10,756	11,693	12,854	13,002	15,176
Net liquidity	CZK millions	(665)	(1,339)	(4,007)	(798)	(4,660)	2,495	4,534
Investments	CZK millions	9,317	11,313	13,873	16,235	11,586	10,248	8,430
Investment ratio	%	8.8	10.2	10.2	10.6	8.0	7.1	5.5
Equity ratio	%	39.4	40.8	39.1	42.3	44.6	48.0	45.7
Equity-to-fixed assets ratio	%	68.6	67.4	66.5	62.6	66.4	72.1	79.8

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.

ŠKODA IMMO s.r.o., Mladá Boleslav, Czech Republic, stake held by Škoda Auto: 100%. Objects of business: 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.



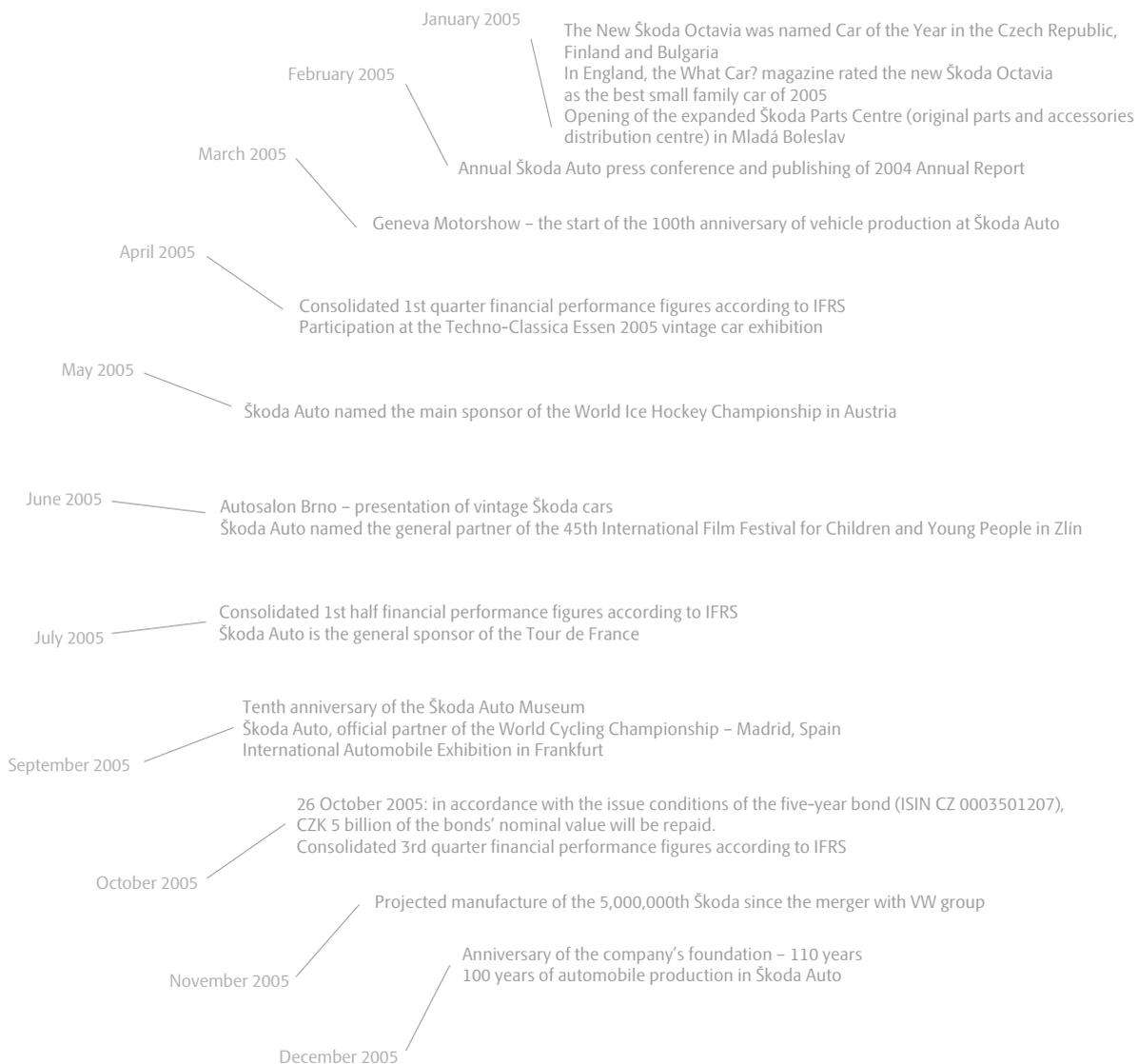
100
YEARS
AUTOMOTIVE HISTORY

1905

2005

The founders of the car factory in Mladá Boleslav, Messrs Laurin and Klement, have given us a century-old legacy of vehicle production. That Škoda is one of the world's longest-running car companies is not only a motivating factor, but also a commitment.

Events of 2005



Consulting, design and production:

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